

## SPECIAL COUNCIL MEETING

DECEMBER 18, 2012

The Special Meeting of the Council of the County of Kaua'i, was called to order by the Council Chair Jay Furfaro at the Council Chambers, 4396 Rice Street, Suite 201, Līhu'e, Kaua'i, on Tuesday, December 18, 2012 at 9:03 a.m., after which the following members answered the call of the roll:

Honorable Tim Bynum  
Honorable Gary L. Hooser (*excused at 11:00 a.m.*)  
Honorable Ross Kagawa  
Honorable Nadine K. Nakamura  
Honorable Mel Rapozo  
Honorable JoAnn A. Yukimura  
Honorable Jay Furfaro

### APPROVAL OF AGENDA.

Mr. Rapozo moved for approval of the agenda as circulated, seconded by Mr. Bynum, and unanimously carried.

### COMMUNICATION:

C 2013-02 Communication (12/10/2012) from the Council Chair, requesting the presence of the County Auditor, Director of Finance, and representatives from N&K CPAs, Inc., for discussion relating to the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ending June 30, 2012.

Chair Furfaro: Welcome. You have two (2) mics there. If I could have you both introduce yourself.

There being no objections, the rules were suspended.

RON SHIIGI, N&K CPA Principal: I am the Audit Principal on the job. To my right is Blake Isobe, he is my Senior Audit Manager and sitting in the back is John Baptiste, he is my Audit Manager. So that is my audit team for this year.

Chair Furfaro: Welcome gentlemen. I would like to first of all, just kind of outline how the meeting will go today. Obviously, for the audit review, I would like to have you give us an overview of the work and your responsibilities to us as the external auditors. Then I would like to see if we can have discussion about the significant findings in the Single Audit Report. Then if we could touch on your Management Advisory piece. Then we will kind of switch gears and go to the Actual Financial Reports summary as I saw from your comments, you said, it reflected fairly on what material was provided by our financial group and that is where I would like to start. How does that sound to you?

Mr. Shiigi: That sounds great. That is what we kind of planned anyway. To begin with, we do have a PowerPoint.

Chair Furfaro: Great.

Mr. Shiigi: It kind of gives you the summary of the audit.

Chair Furfaro: Okay. I am going to relocate myself over here so that I do not have the PowerPoint to my back. I will be talking from that mic there next to Elizabeth. Okay. We are set.

Mr. Shiigi: There are three (3) separate reports that we want to discuss today. One (1) of them is the Comprehensive Annual Financial Report or the County's CAFR, which is the really thick report here. The second report that we are going to go over is the Single Audit Report, which is the report on Federally funded programs. Then the third report is what we call the Management Advisory Report—the thin report. The Single Audit Report, it is giving a summary of the Auditor's result, what we call it is based on the financial statement. In this Single Audit Report we do have what we call the Schedule of Expenditures of Federal Awards (SEFA). We are able to give an unqualified opinion, not only on the County's Finance Report, but as well as the SEFA. In the Single Report, we also noted the internal control over financial reporting and compliance. We noted there were two (2) material weaknesses...I am sorry, three (3), three (3) material weaknesses. It is identified as 2012-02, 03, and 04, and we will go over that. There was one (1) significant deficiency, which is the first finding, 2012-01. As far as the Federal awards part of the Single Audit Report, we are able to give an unqualified opinion that you administered your major Federal programs that we tested in compliance with Federal regulations. However, we did have also noted material weaknesses under finding 2012-05, 09, and 10. We did not note any significant deficiencies in the Federal awards programs. But we did have other reportable findings. We will go over that as 2012-06, 07, and 08. The listing of the programs as audited by major programs is located on page 30. If you note on page 30 of the Single Audit Report, we audited nine (9) major programs this year.

Just to give you an idea of maybe the differences between the type of findings where we categorize it as a material weakness or a significant deficiency versus other reportable findings, the definition is up there. What we consider a material weakness...I will just read it. It is a deficiency or combination of deficiencies in internal control that would prevent or detect a material misstatement of Federal awards. A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe, but important enough to merit your attention. Other reportable findings, those are findings that we are required to be reported of instances of noncompliance but not considered a significant deficiency or material weakness. Those are the findings that are categorized in the Single Audit Report. Okay. Going into each finding itself, the first finding, that is 2012-01, that is a repeat finding from the prior year. We brought it forward again because the County has not fully accomplished it. It is related to the manual process to maintain and compile the vacation and sick leave records. Blake Isobe will go over in more detail the findings.

BLAKE ISOBE, N&K CPA Senior Manager: The second finding is the recognition of tax appeals in the period that the taxes are paid. We noted this as a material weakness for the fact that this is the root cause for one of our prior period adjustments that needed to be made to the prior year CAFR numbers that related to Real Property taxes. What it came down to was in June 2011, and right at the ending of that prior fiscal year, there were taxes that were paid subsequently...simultaneously they were appealed. These are two (2) large multi-parcel projects that was assessed, I think, current and prior taxes. The appeal was not recorded and offset. I guess removing the taxes that were paid on appeal until sometime during the Fiscal Year 2012. So the taxes are recognized and recorded in

Fiscal Year '11, but the rules that the County follows is if it is on appeal, they do not recognize those revenues, so there was a \$3.6 million adjustment to Real Property Tax revenue that needed to be made to the 2011 CAFR numbers. So that is that finding. The next finding is similar. This is 2012-03 on page 33. This one (1) is to reconcile Real Property Tax Trust Fund Account. This is the Trust fund account that holds that Real Property Tax, the taxes that are on appeal. What had happened is it is kind of stemming from the prior period adjustment. During Fiscal Year 2012, there were multiple transfers that were being done during March, and again in June, that went uncorrected when we originally got the Real Property Tax Trust account. Later on in the CAFR, there are adjustments that needed to be booked to transfer moneys or make a due back to the General Fund for, I think it is about 5 million that is sitting in the Real Property Tax Trust account that should have been sitting in the General Fund. So our recommendation there is that the account should be reconciled monthly to tie back to the amounts that are on appeal and what is sitting in that Trust account. That would have prevented or detected the balance was overstated.

The next finding on page 35, 2012-04, properly record and maintain housing records. This is another material weakness due to the fact there was another prior period adjustment in the Housing Fund, the Housing Revolving Fund. This fund holds properties that the County has purchased sometimes in foreclosure. They have been reselling these homes, leasehold, holding the land but selling just the fee portion. During these times, there were amounts that the County spent to construct some homes that were sitting in the wrong fund. They were sitting in the revolving fund. But they were built and constructed with a different fund the building were sitting on and being recounted. This \$840,000.00 needed to be reversed. There were other land costs that were being recorded both as property held for sale and as land cost within the capital assets. That was one (1) part of the problem. The other part of the problem was another \$1.9 million that was granted to a nonprofit developer for the construction of Pa'anau Village, Phase II. It used HOME funds that were granted. However, the County was recording the amounts granted as construction in progress as though the County was going to own...owns that building. Those funds were actually granted to the nonprofit developer. So those amounts have to be removed from construction in process too. Okay. Next section of findings start moving over to the Federal programs. The first finding on page 36 is 2012-05, properly identify all Federal programs. This finding is also classified as a material weakness over compliance. This program has been going on for many years within the County. It is the State's revolving funds where they loan the Counties moneys to do...a large one (1) right now is the Kapa'a Wastewater Treatment Plant. Within the loan document from the Department of Health, it does say that this is...it says it requires us, the single audit, which we perform. However, these loan funds were not being identified as Federal funds within the SEFA or the Schedule of Federal Awards. Therefore it was never audited as a major program and I think these loans go back to the 80's. I listed the past three (3) years just to give a sense of how much money was missing from the schedule.

We did catch it this year. So we did do it as a major program and there were no findings. However it is just the fact that it was missing and it was not being recorded as or reported as Federal expenditures. The next one (1) on page 38, 2012-06, certification for Federally funded employees. This is just a technical requirement that any employee that works a hundred percent (100%) or hundred percent (100%) federally funded and this one (1) is on the Section 8 program. These employees need to complete semi-annually certifications just certifying that they acknowledge that they are only working on this program and that there is no other

work that they are performing just to acknowledge that fact. There is no question cost or anything associated with this finding it is just that certain paperwork that needs to be done to ensure compliance with that requirement. On the next page, page 39, 2012-07, identification of sub-recipient expenditures, part of the schedule of Federal Awards within in this report is amounts provided to sub-recipients. There is a compliance requirement as it relates to monitoring of your sub-recipients and reporting those expenditures within the schedule. The balances that we were getting I think were incorrect and it was just a matter of communicating exactly what needed to be reported and picked up for the (CDBG) program for the Community Development Block Grant. This problem should be resolved as we had sat down with Housing and they understand what needs to be done to remedy this finding. Page 40, 2012-08, Federal Funding Accountability and Transparency Act, this is required reporting that got attached to Federal programs after (A.R.A.) American Recovery Act. I am sure you guys saw those other programs where you guys had A.R.A. Funds and what the FEDs did was attach similar reporting requirements to allow the people to see how the monies were spent, jobs created, so there is a separate website that was holding this type of reporting. The program was unaware that they were required to do this. I know they spoke to the regional (HUD) or the Housing Urban Development Federal Office and they were working on getting training to be able to learn how to do this.

Chair Furfaro: May I interrupt just for a second?

Mr. Isobe: Sure.

Chair Furfaro: On this one (1), I understand across the State nobody understood this A.R.A. process being assigned to or expanded to these H.U.D. funds. Am I correct?

Mr. Isobe: I believe so. The Housing Department contacted some of the other County Offices and was inquiring how to do this reporting. I did not see the communication so I cannot say for sure but they did have scheduled training for the person or people working on this grant to learn how to do the reporting.

Chair Furfaro: Thank you.

Mr. Isobe: Okay on page 41, 2012-09, Reconcile Federal Expenditures. This is on two (2) of the Department of Transportation grants that they had. What we were having difficulties with where them being able to reconcile the General Ledger to their Federal reports and what they were reporting to I guess the State Department of Transportation as the Federal share of expenditures. The General Ledger for the County is the records that should support what their reporting. They were unable at the time of the audit and we did give them some time to figure out exactly what they had recorded as expenditures. We did note that it is on about two (2) different grants here and the total amount that fifty three thousand, zero one eight, they could not support was (\$53,000.00). Part of the requirement that if at the time of the audit if expenditures are supported or cannot be supported those amounts are reported as question cost. It needs to exceed ten thousand dollars (\$10,000.00) in order to be reported as question costs. So in this case because it exceeds that ten thousand dollar (\$10,000.00) threshold it shows up as question costs in the report. The next finding is again on a Transportation grant. In this case there is a Federal and County share between the expenditures and on this grant, it is a eighty percent (80%) Federal share and a twenty percent (20%)

County share. During our testing they were unable to determine and there were instances where they were charging the FEDs a hundred percent (100%) and the County share for the twenty percent (20%). They could not support so in this case it turned out to be the County could not support \$3,808.00. So because it was below the question cost threshold, there is no amount that falls out to the right column. However, it is still a reportable finding. That is all of the current year reported findings within the Single Audit Report.

Chair Furfaro: There are some questions at this point from some of the members. Members as we have covered these sections on these findings, do we have questions from the table?

Ms. Nakamura: I wanted to ask you what is the impact if you have significant deficiency or a material weakness? How does that impact or does it impact Federal grants?

Mr. Shiigi: Does it impact...

Ms. Nakamura: Does it impact future Federal grants?

Mr. Shiigi: It is like a red flag. But if the County can resolve the findings I think it should not. But I guess if it is a finding that is continually being reported that has been not accomplished than I think they may in fact, the funding in the future.

Ms. Nakamura: Does the Federal Government give you time to address the concerns?

Mr. Shiigi: Well, in the back...on the Single Audit Report, there is a Corrective Action Plan that the County had put together. That is on page 47. In that...in other words I guess that is the time frame. When we come back next year to do the audit, we need to follow-up on all of these findings and report it as the status of the prior audit findings. It is like what we did on page 45. If you look at page 45.

Ms. Nakamura: My concern is that, in the Corrective Action Plan, there are no end dates.

Mr. Shiigi: Yes, some of them are ongoing...it is just called ongoing.

Ms. Nakamura: And so that does not give anyone the insurance that it is going to be addressed by a specific date. Is that something that the Federal Government looks at?

Chair Furfaro: Vice Chair, maybe I should intercede here. What I would hope that comes of this, is what we have done in the past. The Finance Committee will work with Finance. We actually put together a working schedule with deadlines. But is yet to be developed by us in making sure that the Finance Department would then agree on what the date they would complete the work would be. That is how have handled it in the past and that is how I recommend we handle it going forward. Your point is very well taken. But this is something the Finance Committee could do as a follow-up. But we have to mutually agree on the dates.

Ms. Nakamura: That is helpful. I think especially for those that are recurring or one (1) that is a recurring issue, I think specific dates would be helpful.

Chair Furfaro: I would hope that is how we approach it again this year. The one (1) that is most concerning with me, I have to be very honest with you, is the reconcile of the liabilities relating to vacation and sick pay. But then now in probing that, I found out almost the entire State and all the other Counties do it the same way. None of them are doing it on a spreadsheet that is a program set up for the reconciliation of liabilities to pay benefits. I know that we have started on the work. But I was just overwhelmed when I found out in today's date and age, everybody is doing it manually. Unbelievable.

Mr. Rapozo: I actually have a process question. I realize that the Auditors are here for a limited time, what is the plan for today? Are we going to...

Chair Furfaro: I went over the plan and I will read the framework again. The first thing we are doing as this highlights here, with the Single Audit Report, especially on finding those material weaknesses and so forth because we need to develop a plan from there. Then I would hope that we will go to the Management Advisory piece which are the lesser of the difficulties. Then after we have gone through that, I would hope we would have some time to actually go through the Financial Reporting that we have from the various Departments. That is the plan as I have laid it out. I think in step three (3) is where we are going to be, I think where you want to ask some specific questions about the actual financial reporting by Departments.

Mr. Rapozo: No, I wanted...

Chair Furfaro: I wanted to get the material weaknesses and the advisory pieces out of the way first. I hope that answers your question Councilmember Rapozo.

Mr. Rapozo: It does. I guess the Administration is here. Are they going to be able to address these issues today and answer questions?

Chair Furfaro: Well, I hope they would...the most serious questions that you have. But again, I want to say and remind everybody, some of you have been through this with me before. Over the next ninety (90) days we laid out the actions plans that have to be complied with by the various Departments whether it is Housing, you know, HUD compliance and so forth. It will be a series...a calendar and a series of questions over the next ninety (90) days for compliance.

Mr. Rapozo: Okay. Well, I am just going to be frank and honest, that this is probably the worst audit that I have seen while serving on this Council. It is. I think it is the most material weaknesses. I think it is quite troubling and I appreciate the work that the Auditors do. I have read all the findings and I do have some specific questions of the Administration. I do appreciate the ninety (90) day window, but is...I know I believe last year we agenda the individual Departments...

Chair Furfaro: Yes, that is what we plan to do...

Mr. Rapozo: ...to have the discussions because I do –I have some...

Chair Furfaro: We will be going through the same process. I think you are correct in identifying the fact that, you know, there is several material weaknesses here that we have not seen before. I think it is important that we lay out a plan. But I would like to stay with the overview that we talked about first and then we can be lead into the financial questions.

Mr. Rapozo: Okay. Can I just ask some overview questions then?

Chair Furfaro: Sure.

Mr. Rapozo: What was the total amount of adjustments that had to be made to the prior year CAFR? I know that you broke it down individually, and if you do not have the number, that is fine. But I cannot do the math that quick.

Mr. Isobe: It is 3.6 million to the Real Property...the 3.612 to the General Fund and 3.2 million to the Public Housing Fund.

Mr. Rapozo: So, 6.8 million?

Mr. Isobe: 6.8 million, yes.

Mr. Rapozo: Of funds that should not have been available for use?

Mr. Isobe: Yes. It is...yes.

Mr. Rapozo: That in fact were used? Well, I should not say used, but it was committed in the budget. Because the adjustment had to be made after the fiscal year, correct?

Mr. Isobe: Yes.

Mr. Shiigi: Yes.

Mr. Rapozo: So we passed the budget. After we passed the budget there is six (6)...whatever it was, 6.8 million or 6.6 million that needed to be transferred. How does that get reconciled in the budget?

Mr. Isobe: The 3.2 on the Public Housing Fund was actually just asset sitting there. I do not think it was any liquid assets...capitol assets.

Mr. Rapozo: Okay. So the 3.6 would be the cash?

Mr. Isobe: The 3.6 was cash.

Mr. Rapozo: So, we...our budget has past and whatever the number is, all of the funds are committed because we have to do a balance budget whether it is unassigned or assigned?

Mr. Isobe: Yes.

Mr. Rapozo: But at some point after that fiscal year started, we had to reconcile that 3.6 million dollars in cash in the prior year CAFR. How does that get reconciled in the financial statements in the existing year? Does it just show up as an adjustment?

Mr. Isobe: Yes. So, I think on page 34 of the CAFR. We show it as an adjustment to fund balance on the General Fund. It shows up there and it will show up on the fund financials on page 29 to the General Fund.

Mr. Rapozo: Okay. Now I know that the question was asked about the Federal funding and if we get an opportunity to fix it up and should that be a problem going forward with some Federal funding. I am not sure how many of these government audits that you folks have done because typical your contract is like, what three (3) years?

Mr. Isobe: Four (4) years, yes.

Mr. Shiigi: This past year I think is four (4) years.

Mr. Rapozo: And I am not sure if you have been in a situation where these kind of things have occurred that actually did affect Federal funding. I am not sure if you can even answer that. But are you aware of any situations where...

Mr. Shiigi: It did not affect it? Not that...not that am I aware of.

Mr. Rapozo: Okay. And I do not know if four (4) years is really enough because I do not know how long the Federal Government gives Government Agencies...how much time they give them to correct these actions. I think I share the Chair's concerns about the sick leave because that is a recurring one (1). But I think the other material weaknesses in my opinion, are much more severe because it is. The way that I look at it is, it is basic accounting that we are not doing properly. It is not painting the true picture for the public and for us on this Council and that is troubling as we prepare for a new budget season.

Chair Furfaro: First I want to clarify. I did not imply that the sick or vacation was the most serious or the more serious to whatever. I am saying that I was shocked to find out that all Counties and the State are handling the reconciliation. Their biggest single expense is payroll and all Counties are using the same manual system to reconcile that liability. That is unbelievable in this day and age. I just want to clarify that. Mr. Rapozo, you still have the floor.

Mr. Rapozo: It is unbelievable because in 2009 we allocated \$395,000.00 for a payroll personnel system that is still in the books today in the CIP budget and yet we are still doing it manually. So that is the troubling part of it. It is not your *kuleana*. That is our *kuleana*. I mean I do not think that this is a difficult thing to resolve. Let me just ask one (1) more question Mr. Chair, because I will not get into the specifics at this point. When you do an audit, you do random sampling, correct?

Mr. Isobe: Yes.



Mr. Rapozo: I know a lot of the public may think that out of all the payroll records they only found five (5) instances that there was problem. Last year there was twenty (20) plus. I believe it was twenty-six (26) or twenty-eight (28), of which twenty-six (26) came from Personnel. But you found five (5) instances. But what percentage of actual and generally in an audit and specifically this audit, what percentage of...I do not know how to call it, the cases do you review in a random sampling? Let us say for this vacation and sick leave records. Yes you found five (5) but how many did you look at?

Mr. Isobe: That was out of forty (40).

Mr. Rapozo: You looked at forty (40)? So five (5) out of forty (40) was...that is fine. I am just trying to figure out what percentage do you look at in a random sampling because I think it is important to understand in any audit that when Auditors come in, they are not checking all the records. They are taking random sampling and in this case it is five (5) out of forty (40). Now, in Transportation and Housing, when you look at these specific grants, do you look at all the grants?

Mr. Isobe: We look at the larger ones.

Mr. Rapozo: Right. So this is basically a...and this is the concerning part for me, it tells me that there is a trend in this County on reporting. There is a trend in this County that, you know, maybe people are trained and I am hearing that training, training, training. We do not pay people a hundred grand (100,000) a year to get on the job training I guess is what I am trying to say. When we have a Finance Department, when we have a Budget Department and we have expanded that over that last year or so and this is the result, I am concerned. I am extremely concerned because when we expand and we spend more money because it is going to make our reporting easier, it is going to be more accurate and we come out with an audit like this, it is troubling. I am not going to get into the specifics, Mr. Chair. But I do plan on...and I am hoping that it is relatively soon that we get the Administration up so we can get the specific questions because I do have specific questions and I will say it right now. My main question is who is responsible for the oversight of these findings? Who is responsible? Who signs off on things like this when they are not reconciled? What troubles me is when we get a finding that we still cannot reconcile. Now, I do not know at the time of this writing when you wrote these findings. You mentioned I believe it was Transportation I think, it was that could not reconcile the difference. I mean, even with your assistance, they still could not reconcile the difference? In other words, are you telling us that there is forty (40) of fifty (50) plus thousand dollars of money that is...we do not know where it is? Is that what you...is that what this report is saying?

Mr. Isobe: Yes.

Mr. Shiigi: That we are saying, yes.

Mr. Rapozo: And they cannot find it?

Mr. Isobe: They report it as though they are claiming it for Federal reimbursement. So the State gave them the money for it. But whether or not that grant was holding, they used project reports which hold the expenditures for that grant. That project report which is the GL, was less than how much they

reported. So they were unable to determine what other expenditures they had used to report.

Mr. Rapozo: No, I understand clearly. I am trying to figure out, how does that happen? When a report gets sent over to the Federal Government or the State Department of Transportation, somebody has to sign off on that. Somebody is signing off on that without verifying the accuracy and that is, you know, a relatively small amount when you look at the big scope of the budget. But that is only based on random sampling. We do not know of the rest. I am thinking, what do we do as a Council going forward? These are the questions that I will have Mr. Chair, as we move forward because it is extremely...

Chair Furfaro: Again, I have laid out the plan for you already, Mr. Rapozo. I think if we could stay with the way that I laid it out, those with significant items, we will identify an action plan to get to the findings as well as how we are going to correct it. But let us take the first part of this and focus on these nine (9) items that turned up as material and significant shortcomings at the moment.

Mr. Kagawa: I have known your company for a while. I know that you have grown from mid-sized to a big firm. You have a lot of experience in Government, so I really trust your report, and your recommendations. I guess I want clarification on the 3.6 million adjustment. Basically when we receive the payment, we booked it as Real Property revenue and I guess we deposited the cash. This appeal was filed on the at same day or after? I guess my second question is what should have we done so that that problem did not occur?

Mr. Isobe: I think that this situation is pretty unique in the fact that when and what had transpired as it relates to these properties. I believe...

Chair Furfaro: Excuse me, we will clarify. It is two (2) properties.

Mr. Isobe: Two (2) large...

Chair Furfaro: Two (2) large parcels.

Mr. Isobe: Two (2) large parcel properties. There were back taxes that were assessed. Back year taxes and a bunch of things had gone on. In order to stop penalties and interest, they made that payment and filed that appeal. What would have prevented it would have been the reconciliation of that Trust account. What should have been in that Trust fund account which is the next finding over that would have signified, okay there needs to be more money that needs to be sitting in that Real Property Tax Trust account. The reconciliations were being done after the two (2) mean Real Property Tax large payment times which is I believe, August and February, when everyone the payments are usually are due and they would reconcile that account. However, because these parcels decided to pay in the ending of June and file that appeal without that report being run to determine okay all of these parcels are on appeal, this much money needs to be in the Real Property Trust account. Those monies were not shifted over from the General Fund over to the Real Property Tax Trust account. So in that case that one (1) procedure of...we had actually said to do it monthly. That is out recommendation to do it monthly. So it is an account that they should be reconciling on.

Mr. Kagawa: I guess my follow-up question...I am still a little bit confused. But you provided me with a little bit more insight.

Mr. Shiigi: This happened in Fiscal 2011. The monies were deposited in the General Fund and recognized as General Fund Revenues in Fiscal 2011. So in Fiscal 2012...

Mr. Isobe: They did the reconciliation...

Mr. Shiigi: They did the reconciliation...

Mr. Isobe: And moved the monies from the General Fund.

Mr. Shiigi: And determined that because it was an appeal, it should not have been deposited into the General Fund in Fiscal '11.

Mr. Isobe: But what happens is your '11 revenues are sitting there. But your '12 revenues moved down because when you move it into the escrow account it decrease the current year revenues. However, those revenues were sitting in '11 and this appeal is now moving revenues in '12. So '11 is higher, way higher than it should have been in '12.

Mr. Shiigi: You are overstating revenues in Fiscal '11 and understating it in Fiscal '12.

Mr. Kagawa: Okay, thank you. So basically, we ended up...the appeal ended up failing, right?

Mr. Shiigi: The appeal ended up failing?

Mr. Kagawa: Well they...I guess they are appealing that they do not owe that 3.6? Is that...

Mr. Isobe: I believe it is...as of here and not all of it has been settled.

Mr. Kagawa: Okay.

Mr. Bynum: Just real simply, when somebody makes a payment and it is on appeal, you put it in a revolving fund, not in a regular fund and that is the error that this went in. It got reported in the General Fund when it should have been pending outcome in a revolving fund, correct?

Mr. Isobe: Yes, the Trust.

Mr. Shiigi: The Trust account.

Mr. Bynum: And now you have a week ago, I did not know what the outcome of that appeal was. I still do not. So those funds should still be in the Trust Fund until the appeal is finalized. In which case, if the landowner wins the appeal gets a refund right, because he is paying it in the end. Other appeals people do not pay, right and it is an account receivable. In this instance they paid to stop any potential penalties. So should that appeal be denied, then the funds would transfer from the Trust account into the General Fund?

Mr. Isobe: Yes.

Mr. Bynum: Okay.

Chair Furfaro: Your point is well taken that the Trust Fund that Mr. Bynum had mentioned, that should be looked at and reconciled monthly and obviously that is something that is not happening.

Mr. Bynum: That would have picked up this error.

Chair Furfaro: Yes, you are right.

Mr. Bynum: But pending the outcome of those monies may go back into the General Fund depending the outcome of the appeal?

Mr. Shiigi: Right.

Mr. Bynum: I have never seen this kind of finding. This is a unique as you said, you used the word unique, which is something a mistake that has not been made previously that I am aware of.

Ms. Yukimura: To follow-up on Councilmember Kagawa's question. Do you have a...I mean there is a procedure in Finance where once an appeal is filed, if there has been payment then that money is moved to the Trust account, right?

Mr. Isobe: Yes.

Mr. Yukimura: There is a procedure?

Mr. Isobe: Yes.

Ms. Yukimura: But somehow that procedure was not followed?

Mr. Isobe: No, the procedure is being followed and it is being done after the major payments are made. Say February and August are made, they will do the reconciliation. However, because this...that in the past that was sufficient because maybe there was not this unique transaction where the landowner was going to make this huge payment outside of the regular payment times. So this payment came in and the reconciliation...because the reconciliation was not being done at June, they were only doing it at...

Ms. Yukimura: I see.

Mr. Shiigi: February, June and August.

Mr. Isobe: It would not catch this. Now, if they did do it every month it would have caught it.

Ms. Yukimura: So they paid upon appeal. They paid it upon appeal?

Mr. Isobe: They paid it and filed an appeal.

Ms. Yukimura: No, they paid it in the regular...in the regular process of payment, right?

Mr. Isobe: No, they did not pay it in the February of August time. They paid it in June 2011.

Ms. Yukimura: Okay.

Mr. Shiigi: Right at the end of your fiscal year...the June fiscal year.

Ms. Yukimura: Okay, now...and the certification, you know, we take half percent (½%) and set aside that for our Open Space Fund. So was an over amount set aside for that purpose and does that have to be an adjustment made as well?

Chair Furfaro: No. I think the point here, gentlemen, you may not be familiar with this. But because they had missed the tax cycle, okay, and the reality is when they realize that this penalty was occurring they decided urgently on their part to pay it to end the interest that was being charged and then did the appeal. The Open Space Fund is a percentage of total revenues. But the revenue is not realized in the Trust account until it is actually transferred to the General Revenue account.

Ms. Yukimura: But it has been transferred to the General Revenue account, right? And was it part of the certification in the budget that...such that a percentage for the Open Space Fund was taken?

Mr. Isobe: I cannot say for sure. I mean, I would need to see what certification you are talking about.

Ms. Yukimura: Okay, will you look into that?

Mr. Isobe: Okay.

Ms. Yukimura: I mean, it seems like...

Chair Furfaro: We can send it over as a question.

Ms. Yukimura: It would affect the books. Then I have a question about sick leave and vacation.

Chair Furfaro: Go right ahead. Then we will go back to Ross. I think Ross was still...you were still talking on the property issue?

Mr. Kagawa: I was going to ask about sick leave too.

Ms. Yukimura: Like the Chair, and I think probably all Councilmembers, I am very concerned about this repeat deficiency. As Councilmember Rapozo pointed out, we have been concerned about this manual recordation of sick leave and vacation pay. You are saying that, not only we are doing in manually. But every Department uses a different manual process? We do

not even have standardization among...within in the manual process within the County?

Mr. Isobe: A lot of the different Departments do it a similar way. There are some Departments that do it a different way, they track it different using a spreadsheet or different method to track it. But they are not all alike.

Ms. Yukimura: I mean, that sounds insane in and of itself that we do not have a standard process within...even if we are doing it manually. And the thing is, if we shift to a software process, we have to have a standard process I would guess. So standardizing the manual process would be a first step, although it should be done in anticipation of an IT process. So just heads up to Finance, that is going to be...and I feel Chair maybe if we are going have a schedule I would like to have this upfront and early so we can address it in budget as well or have a follow-up in budget.

Chair Furfaro: Well, how the schedule comes out will be left to the Finance Department, Finance Chair.

Ms. Yukimura: Okay. Good.

Chair Furfaro: I am sure Mr. Bynum will cooperate on that level.

Ms. Yukimura: Okay. The question about you did forty (40) spot checks. I guess and out of the forty (40), you found five (5) instances of discrepancy. So if there is a total of five thousand (5,000) entries or situations that means that it is that percentage of deficiencies we might find Countywide?

Mr. Shiigi: I do not think we can just say that. We took a judgment or a sample, we did not do a real statistical sample where we could project the errors. So we did not take that approach so I could not say for sure.

Ms. Yukimura: But it does indicate that if you have so many out of...

Mr. Shiigi: The more we look at...actually if we look more, we would find more. But how much more, you know, I am not sure.

Ms. Yukimura: Did you monetize the errors here?

Mr. Shiigi: Monetize, no.

Ms. Yukimura: In terms of the amount of monetary discrepancy, loss to the County or loss to the employees.

Mr. Isobe: So that I do not have right now. I can tell you that there were some both ways.

Ms. Yukimura: I mean either way it is wrong.

Mr. Isobe: Yes.

Ms. Yukimura: A loss to the County is terrible, a loss to the employee is terrible. I mean this is...the Council has asked year after year about

his personnel payroll system and it has, because of the potential ramifications of doing this manually, and now manually through different manual systems that this is and to think that this is happening throughout the State is mindboggling. But we should lead the way and change this. I hope we can address this again soon.

Chair Furfaro: We have money set aside for that and like I said, I am sure Mr. Bynum will be putting that high on his priorities.

Ms. Yukimura: It is not a matter of money because there is money in the budget. It is a matter of the Administration moving on this and using the money and instituting a computerization of your payroll system. So I hope that we will...and I remember talking that IT talked about this in their budget report to us last year. So it probably is time for an update.

Chair Furfaro: That is why there is \$380,000.00 in the budget from last year. And the payroll system counts for the actual hours reported and earned. The issue here is the percentage of payroll and liabilities earned based on what they actually pay. So it is separate in itself that you are reporting a new schedule of liabilities for these benefits.

Mr. Kagawa: Well, Councilwoman Yukimura, I know answered a lot of what I had. I just...I guess I have a...looking for your professional opinion and I do not know if you want to answer it or not. But you know, when you have a large employment Agency like the County, I mean is it...does it make sense that we are doing it this way where we have individual Departments all trying to keep track of theirs? Then it goes I guess, with the whole system in Finance?

Mr. Shiigi: Right now everything is decentralized to the different agencies out there and then everything is sent to Finance by each Agency.

Mr. Kagawa: So I guess what I am asking is, you know, you guys to a lot of big businesses, you issue out good opinions on their accounting and whatnot. Would it make or is it your recommendation that we maybe centralize it? And maybe that will kind of get rid of some of the errors.

Mr. Shiigi: I am not sure if I can answer that. I mean that is the way that it is right now and not only in the State but all of the Counties. It is a decentralized process. It would make sense to centralize it but I know how much cost and effort that would be to centralize everything in one (1).

Mr. Bynum: Just a process issues just for those. Over the last several years we have developed a routine which is that the...we just got this so now we are identifying those single audit things that are of concern. We will follow-up with each of these you know, and dialogue with the Administration about an action plan. So in order to get through today, if we go too far into these detailed questions we are not going to get completed because we will return to each of these and do a more systematic view of it. So I just wanted to say that. I guess because you presented all of the findings now, you know, and you have categorized them as material deficiencies. Understandably under the pattern those are the more serious ones in terms of the County. There is like the three (3) hierarchy, correct? So I just opened a general question, which of these, and maybe there is no answer from you, which of these should we be most concerned about? In your experience when you look at this, which one (1) is, "wow look, this is unusual."

Mr. Shiigi: Well, the findings are grouped into two (2) parts. One (1) is the internal control of the financial reporting which relates to the accounting and reporting for the County. The second part, a lot of the findings relate to specific Federal programs that we audited. I would think that the Federal Government or as far as that particular Department would be interested in how you are going to address the findings that relate to their agency.

Mr. Bynum: So the first step is Finance will respond to, the second step will be more Department specific.

Mr. Shiigi: So, you know, we had different findings. Federal findings with different Federal Agency Departments. So each of the Departments, you need to...the County needs to respond as to their action plan on how they are going to resolve the filing relating to their program. So it is kind of like each one (1) is important to them. Each filing is important to their particular funding of the County. Then there is the overall one (1) as far as the internal controls over financial reporting for the County.

Mr. Bynum: And then just about the ram...just to clarify something that you said earlier. When you looked at the vacation/sick leave you looked at forty (40) records, you found five (5) problems, roughly twelve percent (12%). So we could say in our minds twelve percent (12%) of the records are likely to have problems? Is that sample big enough to make that kind of statement?

Mr. Shiigi: No, we did not do a statistical sampling so we could not project out that. But it was just judgmentally selected and but I could say probably that more we looked the more we would find. But I do not know how much more.

Mr. Bynum: And the Federal audits, you do the larger, you do all of the larger ones right?

Mr. Shiigi: Yes. It was listed here, the nine (9). There were nine (9) major programs that we tested. So we actually go in and the sample sizes just taken for each of those programs.

Mr. Hooser: Just real briefly. A little follow-up on the forty (40) instance that you examined and five (5) were a problem.

Mr. Isobe: Discrepancies.

Mr. Hooser: Discrepancies. Is that typical of other...is twelve percent (12%) common historically with the County or other audits that you do...is it common typical or is it less or more normally?

Mr. Isobe: On one (1) other larger Department that we do it was a larger problem before. They...

Mr. Hooser: It was a larger problem in the County of Kaua'i?

Mr. Isobe: No, in the State Department.

Mr. Shiigi: We did another large State Agency. The State Department, we found a lot more.



Mr. Hooser: Oh, okay.

Mr. Isobe: But over the years they have done their own reviews of the files making sure...pretty much what we do, what we look for, they do to a sample. They do that periodically throughout the year so that they endure that the different Departments or the different people who are maintaining the files know what they are doing, are keeping proper records and they will do corrective action making sure that if they are finding problems before it comes to us...us finding the problems.

Mr. Shiigi: Because it is a decentralized proves certain Departments maybe have better personnel, maybe more accurate. But anyway, that Department I guess did an internal review of their own once the information came in. So that kind of reduced the number of errors. So they did a self check I guess on that.

Mr. Hooser: In the State?

Mr. Shiigi: In the State. State agency.

Mr. Hooser: So the twelve percent (12%) or so is that again a typical kind of percentage that you would expect or is it something that would cause concerns for you as Auditors?

Mr. Isobe: Last year it was a large number.

Mr. Shiigi: Last year, we had a lot more findings in the County.

Mr. Hooser: Last year was a larger percentage? So it is actually getting better?

Mr. Isobe: Hopefully.

Mr. Shiigi: Hopefully or it is the files that we selected.

Mr. Hooser: Right. Okay.

Mr. Shiigi: But it is still a recurring problem and that is the reason that we are pointing it out.

Mr. Rapozo: I know you only had five (5) this year, but what was typically the scenario?

Mr. Shiigi: The type of discrepancy you mean?

Mr. Rapozo: Yes. What was the typical? Was it...I guess my concern is, do we have employees, I think Councilmember Yukimura brought it up earlier that it is not fair to either side. But do we have employees that are having more vacation or sick leave than they have earned? I have to believe it is a yes.

Mr. Isobe: That I would need to check. But I am pretty sure it is yes and I am sure there was a few that were short.

Mr. Shiigi: It was both sides, had over and under.

Mr. Rapozo: Right. Has that been reconciled? And how do you reconcile that? I mean how do you reconcile, an employee says I have five (5) more days and the Department says no you have four (4). How do you reconcile that?

Mr. Isobe: So based on what we found, we will let them know to look at these employees logs based on what they submitted for request off, what was posted to their log, what they earned. In some cases I think one (1) for sure they were not earning enough and so they would fix the log because they would add how much they were supposed to have earned each month.

Mr. Rapozo: Right. Now, when you looked at last year's...when we revisited last year's discrepancies, do you folks look at how it was resolved?

Mr. Shiigi: No.

Mr. Isobe: No.

Mr. Rapozo: You do not.

Mr. Shiigi: No, we do not. But we know...we already communicated the error and the discrepancies to the County so...

Mr. Rapozo: Yes I understand that part. But you guys do not go back and...

Mr. Shiigi: No we do not go back.

Mr. Rapozo: Okay. So that is something that we need to check with the Administration, how those twenty (20) plus discrepancies were resolved. And then just... you know the Certificate of Achievement for Excellence in Financial Reporting, the Certificate that we have gotten for I do not know eighteen (18), nineteen (19) years in a row.

Mr. Shiigi: Nineteen (19) years.

Mr. Rapozo: Does this audit, do you think that this audit will have an impact on this Certificate?

Mr. Isobe: I asked around about whether the prior periods would affect it and they do not think that it will.

Mr. Rapozo: So we will still get the Certificate of Achievement of Excellence?

Mr. Isobe: Well, there is still that one (1) piece that they need to submit this by the end of the month to GFOA for their review. Then from their they are the ones who will make the determination.

Mr. Rapozo: Are you in a position to issue a grade? Like if you had to do a report card? I mean you folks are the experts. If you had to put a grade A to F, what would it be in something like this?

Mr. Isobe: For the overall report? A grade...

Mr. Rapozo: For the audit as far as our financial reporting and internal controls. I think for me, I am more concerned with the internal controls. I mean when I look at unreconciled accounts that raises a red flag for me. That is just my background in investigation. That tells me that something is wrong. When we have unreconciled or unreconcilable accounts. In my training it is time to bring in some real tough scrutiny and that is what I intend to do. But as an overall audit, if I look at this like a report card what would it be?

Mr. Shiigi: You know, as far as financial reporting, as far as reporting to the CAFR and putting the numbers together, I think the County is doing okay. There is just areas that they need improvement on internal controls. I think the...a more concern would be in the area of understanding Federal requirements and complying with the Federal regulations. I think that the County needs a lot more...well I will not say the County in general. But depending on the Departments handling these Federal programs, I think they need more training as to what is required as far as financial reporting and that type of thing. So when you say financial reporting, that means not the reporting on the County as a whole. But their particular program where they claim reimbursements from the Federal Agency. I think that part needs (inaudible) up.

Mr. Rapozo: Did you look at those programs last year? The Transportation?

Mr. Shiigi: No.

Mr. Isobe: No.

Mr. Shiigi: No. We did not. It depends. The programs that we select, it depends on how much expenditures and their risk of the program. So...

Mr. Rapozo: So we do not know.

Mr. Shiigi: So some of them we may have looked at. But a lot of this we did not.

Mr. Rapozo: This is the first time you looked at it, the first time that you found a deficiency.

Mr. Shiigi: Yes.

Ms. Nakamura: I just want to follow-up on Councilmember Rapozo's questions regarding the big picture and the systems thinking about how do we resolve some of these issues. I am sure we are going to have dialogue with the Administration. But from your perspective do you see it as the importance of training to understand the Federal requirements or is it a skill set of staff or is it the lack of staff. That they are just too overwhelmed. What is your observations about the situation in the Departments that you looked at?

Mr. Isobe: For Transportation, I believe it is training. We sat down with the Department and we sat down with people from Finance as it related to knowing how to run the correct reports and how these reports should tie into what they are reporting. We also discussed probably a better way to record for the matching one (1) how to record the County share and use the system to ease

reporting. It was difficult but it was a manual...well not manual. It was probably a harder way that they were doing it, but there were easier ways. I think with the training and the know how to use GL better or General Ledger better it should improve.

Ms. Nakamura: So you are saying the basic skill sets are there. It is just learning how to interact with the County system.

Mr. Isobe: Yes.

Ms. Nakamura: Did you ever see like it is people too overwhelmed to do this work? Or do you see that there is adequate staffing?

Mr. Isobe: That is hard for us to say. I mean, I know what we needed from the Department. Other responsibilities placed on the different individuals, we would not know whether they do other, you know. But is it possible to reconcile with those reports? I believe so.

Ms. Nakamura: Then who does this kind of training of Federal grant requirements?

Mr. Isobe: I believe, Finance does provide or is available to do that type of training.

Ms. Nakamura: So in house, you think that we have the capability to do it?

Mr. Isobe: Yes.

Chair Furfaro: Can I just do one (1) follow-up question? Gentlemen, let me ask you a very simple question for say Transportation. Eighty/twenty (80/20) split on an invoice. The invoice comes into the desk, the invoice is going to be processed for payment. Are they coding it at that time, which portion is Federal, which portion is State?

Mr. Isobe: That is what they are supposed to be doing.

Chair Furfaro: That was not my question. Would you say that the invoices coming in it is a shared allocation eighty/twenty (80/20), are they doing it at the time that they receive the invoice to your...because if you do not code these invoices at the appropriate time, you end up with a back log of trying to sort it out afterwards which will add to some very difficult problems in reconciling. That is pretty simple training. Code the invoice when you get it.

Mr. Isobe: Yes. I believe that was, I mean that is the problem. But also, a back end to check it to reconcile to make sure that you know, when you run these reports you can tie...

Chair Furfaro: No, you answered my question. That is the front end of the problem. They may not be coding the invoice properly from the very beginning. Thank you for letting me ask that question.

Ms. Yukimura: I have a good follow-up to the Chair. Is there not some software that can check you at the end to see if you are...you have and eighty/twenty (80/20) split in your reporting or your accounting or bookkeeping?

Mr. Isobe: The County's General Ledger is able to do that. I know we discussed at Finance how Transportation can utilize the General Ledger to track the expenditure that way, easily run the reports and reconcile both shares.

Ms. Yukimura: So in addition to training, some systemic or systematic reporting structure in computerized...

Mr. Isobe: I believe it is different. Other Departments do it that way already. So I believe the system is capable of doing so.

Ms. Yukimura: Okay, alright. Now coming back to the sick leave and vacation. Do these discrepancies not potentially accumulate into retirement calculations?

Mr. Isobe: I believe so.

Mr. Shiigi: Yes.

Ms. Yukimura: So that over a period of twenty (20) of thirty (30) years, you could have some major complications in terms of retirement calculations, right? And losses, pluses and minuses too?

Mr. Isobe: Yes.

Ms. Yukimura: That could be really...I mean if it is an error in favor of the employee such that they are getting more retirement than they should, that the payments will go on for years erroneously. I mean...

Mr. Shiigi: That could happen I guess so. Never caught.

Ms. Yukimura: I actually heard...well we have heard of it happening at the State level, have we not? I mean that is the implication and the urgency of this particular piece I think. That is all that I wanted to verify.

Chair Furfaro: So whether the urgency is the Federal programs or the urgency is reconciling payroll and benefits I will leave Mr. Bynum's committee. Mr. Hooser you had a question, I am sorry? No. Are there anymore on this side before we go to the Management Advisory Report? I think that is where we ended on this slide.

Mr. Shiigi: Yes. So we covered the Single Audit Report.

Chair Furfaro: So let us go the Management Advisory Report.

Mr. Shiigi: The Management Advisory Report is the thin report. Again, this report again is...we have filings in this report which we considered not significant enough to be included in the Single Audit Report. But still at more your attention.

Mr. Isobe: First filling on page 4, 12-01. This finding is titled Review Purchasing and Procurement Process for Individual Contractors. During our disbursement testing we came across a transaction that we actually look for compliance and procurement...State procurement rules. What we got was a claim

for exemption for this independent contractor under the HRS 76-77 which is request for services exempt from civil service. This grant what it turns down to is this program was a Federal program and services appeared to be for professional services which would not qualify under this 76-77, or we believe that it did not qualify and should have been procured. This was not on a Federal program that was covered in the major program. However, it was the funding source when we actually looked at this disbursement in our regular audit test work of internal controls. There was a procurement violation written up, I believe for this instance where there was no encumbrance made just based on the process that was used to get this exemption. Our recommendation is for the County to relook at these independent contractors and what they are issuing these exemptions for to ensure that it is following the procurement process.

The second finding is page 5, finding 12-02: Improve Internal Controls over the pCard Purchases. The County began using this pCard for purchases less than \$1,500.00 in February 2012 to a few Departments and County is intending to increase the use of these pCards. We did, because it is becoming a transaction cycle, look at some of these transactions. We noted that there were instances that there were no prior approval, there were no standard forms being used. I guess what we...I guess before the system expands and gets to be a larger used transaction that the County looks at those controls over the pCard purchases and determine that there is sufficient controls in place.

The third is 12-03: Property Account for Contingencies. Part of putting together the CAFR requires the Department of Finance to record loss contingencies. It is part of the liability note within the financials and then it gets rolled up to the government wide financials. They obtain information from the County Auditor's Office and use that schedule to accrue that amount into the CAFR. During our audit we noted that there was this case where approximately 2.1 needed to be recorded in and after for the discussion with Public Works and Department of Finance, and I guess the County Attorney's Office, we were able to get that picked up and amount estimated to be recorded as the liability. Yes, it is just a process of ensuring that there is proper communication as to what needs to be included in the schedule that is used by the Department of Finance to accrue for these loss contingencies.

Mr. Shiigi: That is the current year findings. On page 8 of that report gives you status report as to our prior findings. We had two (2) findings in the prior year and the status we have it as partially accomplished. On page ten (10) is the County's Corrective Action Plan addressing the current year findings.

Chair Furfaro: Let me revisit the pCards again. Remember the pCard program is established to make convenient let us say purchases that sometimes are recurring. But they are with vendors who have been pre-approved for use. But what I am hearing is...I mean the old way is you go to Ace Hardware and you give them a purchase order that cannot exceed so much money. So if the Repair and Maintenance Department needs to go in and immediately buy some washers or something like that, they have this open purchase order. That is not a system anymore and a lot of companies have changed. But what I am hearing in this comment on the pCard, let us say the pCard has a limit of \$1,500.00 on it as you are saying, there is not the check and balance when they exceed that purchase at any particular period?

Mr. Isobe:

No.

Chair Furfaro: What are you saying, you cannot reconcile there for this \$1,500.00 cap?

Mr. Isobe: Oh, no. We did not say that we are unable to reconcile anything. It is just where the use of the pCard did not change any of the County's procurement process. Get pre-approval before you buy something, fill out a requisition, get it approved by your supervisor and then use the pCard to go and purchase it.

Chair Furfaro: That happens, right?

Mr. Isobe: And that is why we are saying we see inconsistencies.

Chair Furfaro: Oh, you see inconsistencies. I got it.

Mr. Isobe: Now with the use of the pCard it is much easier to just go buy, give the receipt and then have somebody approve it after.

Chair Furfaro: Understood.

Mr. Isobe: The documentation of that per-approval is not the best.

Chair Furfaro: It is called a permit to purchase after the fact.

Mr. Isobe: Yes.

Ms. Yukimura: Regarding proper account contingencies I guess is the way to say it. Is there not a management issue behind this in terms of trying to even prevent these contingent liabilities from happening? And is that an arena in which you can advise or signal to the County? I mean, if you are having proper management...what you are requiring here is that Managers, Project Mangers or Contract Mangers in the County recognized potential liabilities right? Recognize and calculate potential liabilities. Is that not correct?

Mr. Isobe: I believe in this case the County Attorney's Office was already involved with knowledge of the fact. Therefore, things that come through their Office need to be, there is a determination that need to be made that whether the loss meets the reporting requirement to be accrued for in the financial statements. In this case, the loss was probable and now whether it could have been reasonably estimated was where in sitting down with Public Works, County Attorney's, Finance they were able to determine this amount based on study that was performed.

Ms. Yukimura: Okay. Well, on page 6 you know, it says that in May 2009 the County became aware of operational deficiencies on the site, in April 2011 the County was notified by the landowner that the license agreement was being terminated and the County was responsible to undertake actions to remedy the situation. I am like, there is a two (2) year period of the County being aware and then nothing happening. Well, apparently nothing happening. I do not know for sure. It is just based on this time table here. But I see your point that at every point along the way where this issue was being raised, in the County Attorney's Office, in the Solid Waste Divisions Office, in Public Works, and in Finance. Yes,

there should be all of these indicators. But the main problem seems to be project management.

Chair Furfaro: You know, I would like you to answer that as you can. But I want to caution the members, this is an active item in Executive Session. Therefore, I think your role is to identify this need to improve communications between Engineering, County Attorney and Finance because they seem to need to move a lot more urgent. But I do not want to go into a lot of dialogue here because this is an item that we are dealing with in Executive Session.

Ms. Yukimura: Thank you, Chair. That is a good point.

Mr. Rapozo: Mr. Chair, I just want to...because I agree that this a lot discussion and I appreciate the Auditors bringing this to our attention because I can tell you some of the information that you provided was not relayed to me and I happen to be the Environmental Resources Chair. So it is quite disturbing. I will ask that this matter be placed on a...at a very soon, as soon as possible in my committee with a companion Executive Session item, Mr. Chair.

Chair Furfaro: I think that we should have it Executive Session first before we put it on a posting in public.

Mr. Rapozo: That is fine. But I do...I mean obviously the financial reporting is public record, this audit is public record so I will ask a question about what is in the report. It is that invoice of \$119,563.00 which I am assuming that County paid. Is that true?

Mr. Isobe: Yes.

Mr. Rapozo: And that was paid out of which account? And if you cannot answer it, that is fine. We can get that later. The other thing that you bring up in your text here, is that in... and this is on page 80. I am sorry this is on page 6 of your Management Advisory Report, where in the County had conducted an environmental study of the clean up alternatives and the related costs. I am assuming that that was paid for as well.

Mr. Isobe: Yes.

Mr. Rapozo: Do you know how much that was? What that study was?

Mr. Isobe: No, I am not sure.

Mr. Rapozo: Then, just a last question on this item because I think, again, because it is a pending issue a lot of it has to be discussed in Executive Session. But you mentioned here that the County has since procured and obtained environmental studies and the range of contingent liability is from 2.1 to 5.4 million. That is what the consultant is saying that we might be on the hook for. But the County plans to implement the alternative corresponding to the estimate of 2.1. But in reality, this remediation or liability exposure could be as much as 5.4. Well I am reading this off of page 82.

Mr. Isobe: The CAFR, right?



Mr. Rapozo: The CAFR, your CAFR, yes. Maybe I missed that meeting. But I was not aware that we did a study. I was not aware that the potential exposure is anywhere from 2.1 to 5.4.

Chair Furfaro: I would really like to leave this discussion right there.

Mr. Rapozo: Mr. Chair, I am just trying to validate information that is in the CAFR.

Chair Furfaro: And I understand and they have submitted a report saying what in their estimates, what the estimates are. This is an active agenda item in Executive Session. We just again, want to caution you folks.

Mr. Rapozo: I believe that this is an opportunity that we can get...you see once you leave, then I have to rely on the responses from the Administration. Frankly, sometimes I do not have as much faith. You folks have looked at the books, you folks have reviewed it. So I do not have an opportunity to speak with you folks as often as I would like to. I am trying to take advantage of the opportunities that I have today because it is limited and I am only discussing what is in your CAFR which the public has every right to see.

Chair Furfaro: You know, I want to make sure we understand here. I am not trying to portray anything other than, you have a responsibility to report your findings. In the book, you have reported to us what you believe is the potential exposure. For us to continue having discussion on that, you are available for us to question, you have a reasonable responsibility for your Auditor's report here. But I just want to caution you, as Auditors, about your comments that is active in Executive Session. That is all that I am doing here. Your report has been made as such. Now, from your report we can pursue these questions based on the accuracy you put in your report. We can pursue these differences in Executive Session with the Administration. That is my caution.

Mr. Hooser: Mr. Chair, I am not...I was following the prior conversation and was not sure that it was concluded. My question is regarding the independent contractor item in this. Part of it is kind of a process question. We talked about examining kind of random sample of the payroll of forty (40) and coming up. Do you examine all the independent contractor agreements for the year or do you do a random sample of those? How did you come about this particular...

Mr. Isobe: So we do just non-payroll and we do payroll testing and we also do procurement testing. We will select off the procurement contract log as to what contracts were issued during the year. We will also test for procurement there. But along with our disbursement testing, if procurement would have or could have been triggered we will also look at it there for that fact that it is...would make the disbursement supported.

Mr. Hooser: So testing means that we just by chance discovered this particular incidents?

Mr. Isobe: Yes.

Mr. Hooser: Okay. It says that it was for services, basically it was...there had been a contractor procurement that should have gone through the

procurement process but then for about \$40,000.00. Similar to the five (5) out of forty (40), is this one (1) out of ten (10) or is it...I mean what is...how do we get an idea of the scope of the problem when it was in regards of the independent contractor that we used within the County?

Mr. Isobe: I believe when we went through the discussion with Human Resources and Purchasing, it is not a common contract or a common process. But it is still a process that they need to look at to ensure that they are used in the correct manner.

Mr. Hooser: So the process of securing an independent contractor without going through the procurement process is not a County practice? Is that what you said?

Mr. Isobe: I understand that as not a common use of this seventy (70)...this exemption 76-77 was not that common.

Mr. Hooser: And to get an idea of the scope of just independent contractor services period that are there, given out to the County, is there a dollar amount. This is forty thousand (40,000), do we have a million dollars (\$1,000,000.00) or half a million (50,000,000) or how many? What kind of dollars and cents approximately are we talking about in terms of giving contracts to independent contractors?

Mr. Isobe: Okay, that part I will not know off the top of my head.

Mr. Hooser: Okay. If you could give me some idea. I do not know if there is a lot of these smaller relatively small contracts being given out or just to give me some kind of idea of the Committee, I should say, some kind of idea of the scope of this issue.

Mr. Kagawa: Going back to the pCard purchases. So if I look at the forty (40) transactions that you tested and you found basically. If I add all of these instances where wrong doings were made, there are fourteen (14) out of forty (40). Are they all independent or are some of them are multiple.

Mr. Isobe: Those are all independent.

Mr. Kagawa: So I guess...I mean I look at these improper usages or whatnot. It seems like, I do not know if you can confirm or not, but it seems like that the thinking of the County people with these pCards, they are thinking that I have this card and it allows me to bypass a lot of the rules, I guess. Is that what you are seeing? It seems what I am seeing is that by having this card, they figured that they do not apply to the normal purchase audit rules.

Mr. Shiigi: If you look on page 11 the County's response to our finding, I think has to do with a lot of training in this area. Again, we brought it up because it is going to be rolled out. It will be more in use now so I think they need to be a more formalized training for County Personnel using pCards. I think that is the response here to our finding. I do not know if that helps or answers your question.

Mr. Kagawa: I guess it does. I do not agree personally with a lot of the strict rules that are involved with purchases, especially of smaller items. I go through it myself working for the D.O.E.. But it is something we had to comply or we are in big trouble. So hopefully your findings will get to the Administration and we can correct this problem.

Chair Furfaro: That is a good point, Ross. It should be pointed out. If the Administration is aware of people who are abusing the pCards, you know? They should be issued written warnings, they should lose the privilege of using it. But that is something for the Administration.

Mr. Rapozo: That is one (1) thing that I think lacks in this County, there is no accountability. So when we determine that something was done improperly, and we will ask that question when we get the Administration, what was done...I do not want to say "disciplined" but that is what it needs to be. When we start messing with the pCards and all of that...and the pCard does not circumvent procurement, right? So you still have to make the phone calls. You still have to get the bids. How many of these could you determine that, in fact, that was not done? That, in fact, it was basically a sole source purchase.

Mr. Isobe: In these cases think it is more the approval side. I think when they needed the phone bids they would get those. It is just where documentation of the approval is supposed to be approved first, purchased next. It is not purchase first...

Mr. Rapozo: Right. But were you able to...could they provide the proof of the three (3) phone calls?

Mr. Isobe: Yes.

Mr. Rapozo: In all of these cases?

Mr. Isobe: In the cases that it required it, yes.

Mr. Rapozo: Okay. One (1) more Mr. Chair, and this goes to the independent contractor. I have a follow-up on Mr. Hooser's. How many contracts did you look at, independent contractor contracts?

Mr. Isobe: We did not specifically look at independent contractors. We did look at the procurement process as it relates to contracting as a whole. This came up on one (1) of our disbursements, just random disbursement testing.

Mr. Rapozo: Oh, okay. And led you to...

Mr. Isobe: To request for this support for procurement. In this case the support that was provided was independent contractor exemption, which is this form that requests exemption from Civil Service under the H.R.S. 76-77

Mr. Rapozo: And you made the determination that, in fact, it did not qualify?

Mr. Isobe: Based on our review of what was being contracted, it was professional services.

Mr. Rapozo: Right, and that it was not a qualified exemption under that law. That is what you are saying?

Mr. Isobe: That is what we believe.

Mr. Rapozo: You also mentioned this was not a common practice?

Mr. Isobe: Yes.

Mr. Rapozo: How do you come to that conclusion?

Mr. Isobe: Well, when we spoke to Human Resources....

Mr. Rapozo: Well, of course they are going to tell you...have you done an independent review to come to a conclusion?

Mr. Isobe: Okay, no.

Mr. Rapozo: So I do not think that is a valid conclusion if Human Resources said, "Oh no, this is not common," right? I mean would you agree?

Mr. Isobe: Okay.

Mr. Rapozo: Really. I mean this one (1) bothers me. Do you know I mean I saw the Administration's comment basically saying we concur and we will do better next time and we are going to make sure that everybody understand. But do you know if there was an investigation was initiated? Or any review or forward to the Attorney General or Ethics or anything like that?

Mr. Isobe: No. I do not think so.

Mr. Rapozo: Nothing like that. It was just internally resolved? I bring that up because we recently had an issue that we spent thirty (30), forty (40) hours on this Council floor. So as far as you know it was handled internally and basically they are going to train their people to do better next time?

Mr. Isobe: Yes.

Ms. Nakamura: I am looking at page 8 of the Management Advisory Report. These are prior year audit recommendations regarding the Treasury Trust account, the older balances, reconciling that and improving the sewer billing process. For both of those, the status that you have listed here is partially accomplished and I wanted to find out what percentage would you say these have been accomplished in terms of completing your overall end recommendations?

Mr. Isobe: For the first one (1), on the Review Treasury Trust accounts, I believe last year we had issues with a couple of Departments. One (1) was Planning. I believe they spoke to Finance, because it is not an easy fix for them to do. They need to request budget to be able to bring in revenues. They were collecting things and putting it into the Trust account. But it was fees that should be recorded as revenues. So without the proper budgeting, I think what they were

quoting they need to move those ins and outs that were going into the Trust account incorrectly to the General Fund, I believe.

Ms. Nakamura: When you say proper budgeting, what do you mean?

Mr. Isobe: It is going to create an expense, I think. But also at the same time, bring in revenues for the fees that they are collecting. Right now, they are using that Trust account to collect the fees and post a public notice and pay the public notice and the net amount was remaining in the Trust account. I believe now they need to set it up where they can actually record those as other revenues within their budget and the expense when they actually pay for it. They need to create an expense for that. What I believe they calculated the amount that is sitting in the Treasury Trust that they are going to transfer out is pretty much net amount to the General Fund. I think it is a little over \$100,000.00, I believe.

Chair Furfaro: \$100,000.00?

Mr. Isobe: About \$100,000.00 Public Works began cleaning outstanding some of the older balances and I believe the Real Property Trust one (1), they still need to clear stuff with the Attorney.

Ms. Nakamura: So do you think halfway there, a quarter of the way there...to give us a perspective here because there are one (1) year old recommendations.

Mr. Isobe: Well, at the point where we looked at we looked at it to start it at audit. So I believe they would have only gotten the report December, January of last year. So when we started to look at it, we met with them when we first came out, about September and at that point in order to close it off, they had started some communication. I would say maybe halfway there.

Ms. Nakamura: For both of those?

Mr. Isobe: Yes. Well Public Works, they started cleaning out some of the older ones. The sewer billing, that is a tough one (1). I mean, that is just what they are saying they can do. Just talking to them, it is a start. I believe that is still farther away in implementation than the first finding. The first finding is probably something that could be resolved, hopefully this current Fiscal Year. The second one (1) would probably take a while for the implementation with an integration with Department of Water.

Chair Furfaro: We implemented a new review in our budget last year that we are now looking at these other potential revenues in the smaller accounts. But it continues to be one (1) that we need to visit every year. I am not saying that \$100,000.00 is small. But I am saying that they actually need to be looked at during the revenue cycle for the budgeting year to make sure that they are transferring. Take the expenses out of the fee to pay for a posting or whatever, and then move the balance into a revenue cycle.

Ms. Nakamura: So like ten (10), fifteen percent (15%)?

Mr. Isobe: On the second one (1)?

Ms. Nakamura: Yes.

Mr. Isobe: Probably ten (10).

Ms. Yukimura: Coming back to the independent contractor issue. We did have...I think Councilmember Rapozo was referring to the same one (1) I will be referring to. We did have a high visibility case called the Adult P.O.H.A.K.U. Program. Where services were secured for a Diversion Program without going through the County's procurement process. I think ironically the value in the budget was \$40,000.00. But in your pCard recommendations you talk about implementation of violation reports and consequences for Departments and Agencies not following established procedures. So is that your thinking also in your independent contractor recommendations where you say the County should also review its procedures for the issuance of these independent contracts to ensure compliance with State and County procurement codes? I mean should there be processes for violation reports and consequences for Departments and Agencies not following established procedures?

Mr. Isobe: I guess so. I believe the contracting... the actual contracting piece will go to Purchasing. So this one (1) that slipped through did not go that way.

Ms. Yukimura: There was another one (1) that did not go through Purchasing either, which was a very high visibility case that as Councilmember Rapozo said we spent hours...the Council spent hours and hours on. So it may be as you were told that this is rare, but it has huge implications for the work of the County.

Mr. Isobe: I do not understand the question.

Ms. Yukimura: Well, I mean, it is an accountability question. It is what kind of consequences would there be for Managers who do not follow proper procurement?

Mr. Isobe: That is a policy. That is for management to decide.

Ms. Yukimura: Alright. So you did mention training in your pCard that these policies and procedures could include mandatory training for all personnel handling pCard transactions at various Agencies and Departments? Do you think that in cases of contracting, that anybody who procures services or may be in a position to secure services should go through mandatory training as well?

Mr. Isobe: I guess so.

Mr. Shiigi: I would think so, yes.

Chair Furfaro: If there are any more questions dealing with the Advisory Report. I would like to go into the sections dealing with the Financial Reporting. On that note I will let you begin with this phase of your presentation.

Mr. Rapozo: Can we take a short break?

Chair Furfaro: We can. We only have them until 12:30.

Mr. Rapozo: Well, we have to take a caption break anyway.

Chair Furfaro: Well, we can do that. I was going to go another ten (10) minutes to open the presentation.

Mr. Rapozo: That is find, that is fine.

Chair Furfaro: Can you make the presentation so question digest it on the ten (10) minute break? Can you do these roughly ten (10) slides in ten (10) minutes?

Mr. Isobe: Yes.

Mr. Shiigi: Okay, so in the CAFR again, you did...we brought it out that the Certificate of Achievement for Excellence, this is your nineteenth (19<sup>th</sup>) consecutive year. That was for the June 30, 2011 that was prepared in accordance with the reporting standards and it was submitted by the CAFR due date which was December 31. The CAFR is organized into those bullets that is up there. The Introductory Section, which includes the transmittal and the MD&A, the independent Auditor's Report, where we were able to give an unqualified opinion. Then you have your government wide financial statements, your fund financial statements, your notes to the financial statement and other supplementary information and statistical section. We want to highlight certain areas of the CAFR. I thought we would focus mainly on one (1) area would be the decreasing revenues. Major source of revenues are the Real Property Tax and Transient Accommodation Tax. If you notice in Fiscal Year 2012, taxes were based on the October 2010 assessed property values which was 83...the revenue in the prior year was 83.3 million versus which is current year would be \$80.7 million. So there is a decrease in your Real Property Tax revenues. As far as the Transient Accommodation Tax, Fiscal Year 2012 tax as you know were capped by the State to be at 13...roughly 13.5 million dollars and the prior year was 14.9 million. So there is another decrease in revenues of 1.4 million. So in essence, a total General Fund revenues there was a decrease of about 2.724 million dollars. I think we wanted to just focus in on that area. If you notice the next slide gives you a bar graph of the revenues. Again, it shows the last four (4) years 2009-2012. If you can see, the Real Property Tax revenues have gone down the last four (4) years. The Transient Accommodation Tax and then you have your other revenue sources. Then you have total revenues. Again, total revenues '09 and '10 were about the same, 2011 it went down and 2012 it goes down a little bit more. Focusing on the decreasing revenues we also wanted to focus a little bit on as revenues went down. It should also be note there had was increase in expenditures as well. Payroll costs increased \$3 million or about 4.56%. General Funds transfers out was 16.9 million, consisting of Solid Waste 7.6 debt service 4 million (4,000,000) Sewer Fund 3.3 and the Golf Fund 1 million dollars (\$1,000,000.00). Those are all General Fund transfers out into these other funds. The General Funds transfers in from the General CIP was 3.9 million dollars, this was just because of a reduction of previously authorized projects. So the balance in the General CIP decreased by \$7.3 million. Current year project expenditures was about 3.5 million. Other increasing expenditures, included employee benefits, which is the ERS and the EUTF. The funding...and we show a history of the funding of the arc to the EUTF. If you notice 2009 it was 10.7 million and 11.5 million. ERS and EUTF. So Fiscal Year 2010, '11 and '12, payments to the ERS was 10.7, 10.7, 10.9 and 10.7. Pretty steady. As far as funding to the EUTF, if you notice it went from 11.5 all the way up to 17.1 in the current Fiscal Year. Then we want to focus in on the decreasing fund balance. General Fund and

all other governmental funds from 2009 to 2012, you notice that the General Fund and other governmental fund balances have been decreasing steadily over the years from 54.1 million in '09, it is down to 44.7 million in '12. The other funds went from 98.1 million, current year is now 112 million. It includes the Bond Fund, which decreased representing spending of proceeds, 14.9 million in the current Fiscal Year. We wanted to note there is bonds repayments begin in August 2013 with the balloon payments of 3.14 million in August 2033 and 9.3 million in August 2034. The next bullet show and increase in debt service requirements of 3.7 million in the next Fiscal Year to \$5.6 million in Fiscal Year '14.

Then the final slide that we have...the next two (2) slides is the stabilization arrangement regarding the Reserve Fund. It is reporting guidance from...what we call GASB statement No. 54. The classification as restricted or committed. We give a brief definition of what is committed which is internally enforceable, specific and non-routine. Restricted is externally enforceable, specific and non-routine which are restrictions and commitments must be in place by year end. The remaining balance is then considered unassigned. However, we disclosed what the unassigned balance are in note 15 on page 84. Finally, the stabilization arrangement Reserve Fund. We kind of go over what is the difference from the prior year, assignment of the balance to fund the budgeted amounts can be made the year end. We say reserve assignment was designated in the budget. The assignment was the intent. It was establishment of the reserve in Fiscal Year 2012. Balances do not meet the classification guidance to be committed or restricted. The appropriation of the existing fund balance, GASB 54, Paragraph 16 satisfies the criteria to be classified as an assignment of fund balance, note 10, page 85 of the CAFR. We have a budgetary short fall. In Fiscal Year 2013, we have budget short fall in the General Fund. This gives you the highlights and I guess we can discuss that after the break.

Chair Furfaro: I just would want to say. I wanted you to finish your presentation before we take our ten (10) minute caption break. Thank you for the presentation and we will have Q&A when we come back.

There being no objections, the Council recessed at 11:02 a.m.

There being no objections, the meeting was called back to order at 11:17 a.m., and proceeded as follows:

Chair Furfaro: Gentlemen, as you saw in the very beginning how I tried to layout a format, so that we were not jumping from piece to piece. We have now covered the Single Audit Report, and we have covered the Management Advisory. Now that that is understood, I think we can have some time to entertain free questions as it relates to some of the financial information outlined in the Comprehensive Report. I would also like to remind members that the material you copied in your slides, all of those trend reports are in from pages 130 to 136. And it covers more than just the information you were talking about. For example, year 2009 compared to '12. It goes back for a ten-year period. And you can obviously see from 2009 we have a trend that indicates less revenue, and we have a trend that indicates stronger growth in expenses. I appreciate your PowerPoint, but I just wanted to point out that that material exists. And the trend in the direction of how we approach this had purpose. So that we get those two (2) other pieces out of the way. So members, we now have an opportunity for questions on anything that you would like to reference in the Financial Report. And hopefully, at the same time as Mr. Rapozo mentioned we can have some responses maybe from the finance people that are here, if necessary. But also, a reminder to everyone that we have an hour



and a half here and Mr. Bynum will be responsible for setting up the key deadlines for achieving some results and making improvements. So questions, Mr. Bynum?

Mr. Bynum: I am looking at page 85, and these are just a few naive questions that I have not dug that deep into here. So in the Solid Waste Disposal Fund there is a set aside for landfill closure of \$7.5 million. That is a number that gets calculated and has increased? Do you know? Was there not some other discussion in this report before landfill closure costs?

Mr. Isobe: The landfill liability is in "long-term liabilities." 11 point something million.

Mr. Bynum: Do we not have to identify those funds in the next Fiscal Year and increase that restricted portion?

Mr. Isobe: I believe amounts are set aside annually, but not to fully fund the liability that is sitting in 10 on page 65. Landfill closure and post-closure costs that have accrued as a long term liability right now, it sits at 19.752 million.

Mr. Bynum: That is on page 65?

Mr. Isobe: 65.

Mr. Bynum: Okay, and then back to page 85. At year-end the Solid Waste Fund, there was a balance—future budget—why would you not want to end the fiscal year with less than \$2.3 million sitting in your Solid Waste Fund that is being assigned to future budget shortfalls? I mean if we have to subsidize the Solid Waste Fund from the General Fund. So would we not expect this fund balance to end the year smaller than \$2.3 million carry over?

Mr. Isobe: Based on your budget?

Mr. Bynum: Based on I have a Solid Waste Fund. I know I need to transfer funds from the General Fund every year; right? And so wouldn't I want to transfer funds and not leave a balance? Would a large balance not be better staying in the General Fund and not end the year with...and I think we are addressing that in the next budget, yes?

Mr. Isobe: Well, if you spent more, you would need to transfer more next year. I mean in this case, there are funds left. That is what is left.

Mr. Bynum: Right. I will save that question for Finance.

Mr. Rapozo: It is a clarification for me based on that number. If you could help me understand the \$2.3 million in the Solid Waste Fund, page 85? And it is assigned balance to balance future budget shortfalls. Does that mean that the \$2.3 million was taken from Solid Waste to balance the General Fund?

Mr. Isobe: No. That is what is sitting in Solid Waste that is going to be used for next year.

Mr. Rapozo: For the General Fund or for Solid Waste?

Mr. Isobe: For Solid Waste.

Mr. Rapozo: Got it, thanks.

Ms. Yukimura: This is also a follow-up question. When we have to transfer more the next year, from the General Fund to the Solid Waste Account that is deceptive, because we have some leftover of the transfer from the year before; right? I mean what we transfer next year is actually not a full accounting of the transfer that we need for that year because we have this leftover transfer.

Mr. Isobe: Yes. There are amounts that were left. So it is available for it.

Ms. Yukimura: But it's not from solid waste fees, it's from a transfer of the previous year, an over transfer; right? Just in terms of reporting and understanding.

Mr. Isobe: That is a residual amount that is there.

Ms. Yukimura: But the amount of transfer needed next year is less because there is this leftover transfer from last year? To the point of \$2.3 million.

Mr. Bynum: If you did not want to leave a balance.

Mr. Isobe: Yes, if there was no balance left then you would need...when you are doing the budget you are estimating how much you will need to transfer. You are not knowing at that point exactly how much is going to be left at year-end in the Solid Waste Fund.

Mr. Bynum: This will look very different next year, right, Ernie? Okay. I should not ask you guys this question.

Ms. Yukimura: Can you explain?

Mr. Bynum: It is just my opinion about \$2 million of that should be housed in the General Fund and not carried over in the Solid Waste Fund and apparently as a matter to you as auditors, you don't have an opinion. I believe in this year's budget, next year's fiscal—next year's audit, you are not going to see that big a carry over. During this budget, we transferred in the needed amount to meet the expenses. So I think next year's audit you will not see that.

Ms. Yukimura: Okay. Thank you. I mean that seems to be more accurate accounting. So we really clear about how much we have to transfer every year? Over and above the fees or whatever programmatic budgeting that comes from the program funds. Okay. Thank you.

Ms. Yukimura: It is another subject, but thank you.

Chair Furfaro: Read the page number you are at first.

Ms. Yukimura: It is your PowerPoint presentation page 3, lower left slide. Where you have establishment of reserve in Fiscal Year 2012, balances do not meet the classification guidance to be committed or restricted. I just do not understand that. I need an explanation.

Mr. Isobe: Page 84 of the CAFR, we explained the stabilization agreement or arrangements that is in place. There were amounts that were designated for the four (4) different purposes. Earlier in that slide before, in order for the stabilization arrangement, to be classified between committed or restricted there are certain requirements for committed it is an internally enforceable, meaning that the County enforces, versus externally, which would cause it to be restricted and that would be an outside party can hold you to that requirement. That is the main difference between "committed," and "restricted." and at the same time, the arrangement needs to be specific and non-routine, not...I guess in the designation of the different areas that were being set aside, it was not meeting the non-routine that is something that could occur regularly working capital needs. For GASB reporting purposes in those cases it would not meet the committed fund balance and therefore, it is being shown as unassigned, but disclosed that you do have this arrangement established. And those amounts that are disclosed on page 84 is the remaining amount that would be in the reserve fund.

Ms. Yukimura: Okay. So I really appreciate your definitions of "committed" and, "restricted." that is very, very helpful. So you are showing us here what meets those definitions and what does not, is that right?

Mr. Isobe: Yes.

Ms. Yukimura: Okay. Thank you.

Chair Furfaro: Gentlemen, I will hold mine towards the end, but after I got the first draft of this audit, I sent questions via the County Auditor. I had six (6) questions for you. Can I just affirm that the County Auditor then sent it on to you?

Mr. Isobe: Yes.

Chair Furfaro: You do have that?

Mr. Isobe: Yes.

Chair Furfaro: I will see if there are some other questions, before or unless you want to address those questions now verbally I can hand you the copy of my six (6) questions? Do you have them?

Mr. Isobe: Yes.

Chair Furfaro: Members, do you have copies of my six (6) questions?

Mr. Bynum: Not that I am aware of.

Chair Furfaro: Mel, you have? JoAnn, you have?

Ms. Yukimura: I should have.

Mr. Bynum: How come I do not?

Chair Furfaro: Here, you and JoAnn share that for now. Okay gentlemen, can you just go through those six (6)?

Mr. Isobe: Question no. 1- What is the rationale for the changing classification of the reserve fund from assigned to unassigned? In 2011, we had this discussion about assignment and unassigned fund balance. The end of Fiscal Year '11 what was in place was the intent to create this reserve. Intent... assignment can be made after year-end and it is the least constrained of the fund balances. If you look on page 85, it goes by length by the amount of constraint, not spendable, you cannot really use those monies because it's not in spendable form. It goes down to "restricted," which is outside parties restricting your fund balance and "committed" which is internally restricting your fund balance. And then "assigned," which is just a little less and it can also be...it is just the intent of the County. The assignment is one thing that can also be made after year-end. Commitments and restrictions cannot. They need to be in place at fiscal year-end.

At the end of the prior fiscal year, it was the County's intent to establish this reserve and that is why that amount was shown as "assigned." During 2012, based on the establishment of it, the treatment under GASB is saying these...if it is not specific and non-routine, it does not meet the requirement to be sitting in "committed," or "restricted," and; therefore, it falls to "unassigned." But you are required to disclose that you have this in place. Last year, if you looked at the CAFR, there was not that stabilization arrangement in place. It is disclosed in the first part of Note 15.

Chair Furfaro: I want you to know that some of these questions I gave to you are similar to questions that other members had. That is why I wanted to get this list out of way.

Mr. Isobe: Okay.

Chair Furfaro: Go ahead.

Mr. Bynum: This is the first audit that GASB is required, yes?

Mr. Isobe: I think last year was the first year.

Mr. Bynum: Okay. Because it is not non-routine, that is why it has to be categorized under GASB as unassigned, right?

Mr. Isobe: Yes.

Mr. Bynum: That is why we got changes last week because of that GASB requirement? Because in essence this is reoccurring and routine, not non-routine.

Mr. Isobe: Yes.

Mr. Bynum: Thank you.

Chair Furfaro: Okay. If you could go to question number 2.

Mr. Isobe: Okay. Was the entire amount of reserve fund classified as unassigned? Page 84 shows the breakdown of the reserve part, reserve

or what is called by GASB stabilization arrangements. It shows the breakdown between what is committed and what is left as unassigned.

Chair Furfaro: Along that line, my question is where do we get the strongest rating for our bond float? By having it sit in kind of an unassigned or having it designated in the way that we did in the resolution? Either way, I just want to make sure in the bond market, what might give us a stronger position? No comment? Okay. Mr. Bynum?

Mr. Bynum: What would give us a stronger bond rating is substantially unrestricted fund balance; right? Like if we keep it in 20-25% range, unrestricted General Fund balance, that is pretty high as governments go, yes? They are not going to care where it is, they are going to want to know what is our practice and what percentage of our expenditures transfers out are we holding in reserve, right?

Chair Furfaro: This is an important question for me, if I may expand on that because I am hearing that if we earmark a percentage of that for emergency responses, if we have earmarked so much for a shortfall in business and so forth; that earmark with description puts us in a stronger position rather than saying it is all unassigned? That was my question. That is what I am hearing from the bonding houses.

Mr. Isobe: Yes, that is for them. We do not do the bonding.

Chair Furfaro: I know you do not do the bonding. I am paying you and I want an opinion, because this is our next step. We are sitting here only with a resolution right now. If we commit 50% of our reserve for an emergency response, because they know there is not a hurricane fund available through the State, that might put us in a stronger position to recover. A stronger position to recover, to get business back means a stronger position to improve taxing which I think the bonding houses are interested. You do not have a recommendation. That is okay. I accept that.

Mr. Rapozo: I want to make sure I understand page 84. So basically revenues minus expenditures gives us a Fund Balance. That is basically your equity. I am talking about General Fund. All of your revenues minus your expenditures have you your balance, which is basically your Fund Balance. I am just simplifying it so I can understand this.

Mr. Isobe: Whatever you start with plus your revenues less your expenditures, plus whatever you transfer out...

Mr. Rapozo: I look at everything that went out of General Fund as an expenditure and everything that comes in. So you take last year's carryover, with this year's revenues, subtract all of your expenditures, and we have a balance the Fund Balance, that is your equity for the year. That equity basically is our reserve. That is basically what the reserve for the County. And our policy is saying back when this audit was done, 20-25% has been reduced in the format of an ordinance that is going through the process. Out of that amount you are saying 50% because it is characterized at 50% working capital that is not considered non-routine. So that would have to go into unassigned?

Mr. Isobe: Yes.

Mr. Rapozo: Budgetary stabilization 25% of this amount whatever it is, is non-routine and would be assigned?

Mr. Isobe: Yes.

Mr. Rapozo: Risk Management losses 10% and initial disaster response, 15% would be considered non-routine?

Mr. Isobe: The Risk Management losses would still be routine.

Mr. Rapozo: Okay. So basically 15% of our reserve fund would be committed?

Mr. Isobe: Yes.

Mr. Rapozo: And that is what this number shows on page 84?

Mr. Isobe: The 3.8?

Mr. Rapozo: Correct.

Mr. Isobe: Yes.

Mr. Rapozo: Now is that 3.8 number accurate as we speak today? Or have we made transfers out?

Mr. Isobe: So we have not looked... After June 30, that is what was...

Mr. Rapozo: So obviously this number is subject to change...

Mr. Isobe: In this fiscal year.

Mr. Rapozo: ...in this fiscal year. And I think as I read in your... We are looking at our Fund Balance probably at the end of June to be somewhere around \$15 million that we could basically use—the unassigned, I am talking about—that we could use to balance next year's budget. And I am looking at page 127.

Mr. Isobe: That \$15 million that you are looking at that is sitting unassigned is still part of your reserve, yeah.

Mr. Rapozo: Right.

Mr. Isobe: Can it be used for balancing budget shortfalls?

Mr. Rapozo: I mean that number will be carried over.

Mr. Isobe: Oh yes, that 15 will carry forward. This whole \$19 million that is designated as the stabilization arrangement or reserve fund is carried over.

Mr. Rapozo: It will carry over?

Mr. Isobe: Yes, yes.

Mr. Rapozo: And as I look at your slides, the trends show that our budget needs are basically what we need to balance the budget over the last few years has been substantially higher than that.

Mr. Isobe: I believe so.

Mr. Rapozo: So if we continue on this trend right now based on the numbers in this CAFR, we are going to be short. History tells us that we are going to be short. I am using your numbers. I am just asking, if we continue on this trend, your CAFR—and I just tracked it since 2008—but 2011, 2012, the required transfer or carryover to balance the following year's budget last year was \$18.5 million. What I am reading is that this year, we will be carrying over about \$15 million. So I guess what I am saying is as we get ready for budget, if these trends continue, we are going to be short.

Mr. Isobe: Well, it is...

Mr. Rapozo: ...as it relates to fund balances and available fund balances at the end of the fiscal year. We may realize some savings in other places.

Mr. Isobe: Yes.

Mr. Rapozo: But I cannot rely on what ifs. I am relying on historical data based on this CAFR, and it is telling me that the budget needs to balance the budget, historically, has been, like I said last year was down to 18.5. This year, if I am reading this correctly, the available fund balance that we will probably have as we move forward will be 15. So we are going to have some making up to do at some point. I mean, is that accurate? You can tell me I am wrong. You are not going to hurt my feelings. I am just trying to make something out of this.

Mr. Isobe: I mean, in the budget process there is still unexpended budget...

Mr. Rapozo: Correct.

Mr. Isobe: ...I mean based on how you guys budget.

Mr. Rapozo: Right, and I understand that part.

Mr. Isobe: There is that excess there which is projected out to know what you guys can use. But if you say there are no what ifs, looking at the budget just on the General Fund itself based on last year's budget, the \$9 million that shows as a current year loss, the budgeted loss was \$30 million with \$20 million in excess.

Mr. Rapozo: Right.

Mr. Isobe: Right, so possibly you would be short.

Mr. Rapozo: Yes.

Mr. Isobe: Yes.

Mr. Rapozo: That is kind of what I make out of this. Okay, and this is coming from a non-financial person that is trying to make something out of this financial records...reports. Thank you.

Chair Furfaro: Before I go to Mr. Bynum, I just want to clarify a thing. The example when we talked about the percentage of the reserve and so forth. For example, we unfortunately have another hurricane we have a huge economic downturn, right? We put narrative in there that 25% of this reserve can be used and is reserved for economic response to our community after a tragedy. The bond companies will not look favorably on having those kinds of commitments. That is what I am hearing from you.

Mr. Isobe: I did not say that. I mean I said I do not think we would be able to say yes or no.

Chair Furfaro: Okay, I accept that. I just want to make sure we are clear on what that definition was in "economic recovery," okay? Thank you for giving me that moment. Mr. Bynum, you have the floor.

Mr. Bynum: The \$15 million here that shows as unassigned is not the entire General Fund balance, right? The General Fund balance is \$44 million. That \$20 million, even though it is assigned, we are not going spend it all, right? So there is more than \$15 million available for budgetary purposes, a lot more. You cannot look at that \$15 million as the only portion of the General Fund balance, right? Last year we assigned all \$47 million, and we did not spend... I mean the net change in fund balance was around \$14, including the restatement, right?

Mr. Isobe: Yes.

Mr. Bynum: Right, so we set aside \$47; we used \$9 or \$10 and plus our restatement. That is why the fund balance went from \$53 to \$44, right? So I want to caution that we do not look at that reserve as the only stabilization fund available. The way we have done it, we reported it differently, but the General Fund balance at the end of the fiscal year was \$44,695,000, right? \$15 million of that we said hey, this is our reserve amount after we committed a portion of it. But that \$20 million that is assigned, it is not all going to be spent and neither is the reserve, most likely unless there is a major catastrophe of all-time. So I do not want anybody to think we only have \$15 million to work with, and if we have to assign \$18, it is not going to all come from there.

Chair Furfaro: But you are clear what I am saying, just have some narrative for what the \$15 can be used for. That is what I am saying.

Mr. Bynum: Right, we are going to entertain an ordinance very soon.

Chair Furfaro: Okay. Yes, we have the questions on the list. Is this question on the item we just finished? Ross, go ahead.

Mr. Kagawa: Well, it is similar to what Mr. Bynum was talking about because I want to clarify the whole picture. So earlier you showed... when



you showed... I just want to make sure that what I saw was clear. You showed the revenues, which is going down. You showed our expenses going up. Then you showed a slide where we transferred in \$7 million or something?

Mr. Isobe: \$3.9 million from the General CIP.

Mr. Kagawa: Is that all we transferred in to balance the budget? So I guess I want to make sure that it is clear to the public that we did not do too well last year. Normally we want to at least match our revenues with our expenses. And I think if there is anything that I see is that we should be worried, we should be even more focused in budgeting in this coming year because, apparently, if we leave our taxes the way it is now, then we may have the same problem because our expenses are only going to get more, people's salaries going up. Thanks.

Chair Furfaro: Can we go to question No. 3 from the notes that I sent you folks?

Mr. Isobe: Okay, No. 3, what is the balance in the Reserve Fund? Back to page 84. That is the balance of what is committed and what is sitting in unassigned, and Note 15 kind of describes the Reserve Fund and the classification.

Chair Furfaro: Councilmember Nakamura.

Ms. Nakamura: Thank you, Chair. I wanted to find out the committed fund balance. You said earlier, in response to Councilmember Rapozo's question, is that that represents the 15% relating to initial disaster response. But it looks like it is more like 19-20%. So how does that work? How do you figure that amount?

Mr. Isobe: Okay, Finance did the calculation for the amount that they were committing based on the original budgeted reserve. That amount that is, I guess, not there in assigned are amounts that were already used.

Ms. Nakamura: So what is it based on? What is the total? The total because it seems it may have changed from the time it was initially budgeted or was it always based on that \$19 million number?

Chair Furfaro: Let me give the floor to Mr. Bynum to see if question add to that question. Mr. Bynum?

Mr. Bynum: You know when I saw this and I think this is accurate, but you tell me. We initially had a reserve of \$19 million, but that budget last year we used 3.8 to balance the balance the budget and that was part of the budget ordinance so it is committed; right? That is the difference here is it not?

Mr. Isobe: No. The entire reserve that – I believe it was 20 something million that was designated to establish the reserve, 15% of that is that \$3.8. The remaining amount would be the 80-85%, of which some is not there. To balance out the 85%, you would need additional funds, which is not there.

Chair Furfaro: I will give the floor back to Councilmember Nakamura?

Ms. Nakamura: If it was \$20 million, 15% would be 3 million not 3.8, so I just do not understand.

Mr. Isobe: I could go and get that budget ordinance back.

Ms. Nakamura: I can see where you have the unassigned fund balance showing up on page 85...that showed as unassigned under General Fund. So where does the \$3.8 show up or is it part of committed General Government?

Mr. Isobe: Yes. It is part of the General Government Committed Balance.

Ms. Nakamura: Okay. Thank you.

Chair Furfaro: We will go to Number 4.

Mr. Isobe: Question No. 4. Please explain the statement made on page 21 of the CAFR which reads, "The County continues to maintain a conservative budgeting approach; however, increased efforts and focus on a tighter budget and controls must be implemented in future years." Page 21 of the CAFR is management discussion and analysis. This is a statement made by Management. I guess points to remember, the CAFR is produced by us, but the numbers and everything within the report is produced by Finance. They put together the numbers. They maintain the trial balance, the numbers within here. They write the majority of the notes. We assist in some to assure that it complies with the GASB requirements. Our part in here is pages 11 and 12. That part of the MD&A is part of Management's discussion of what has transpired over the year. It is their discussion.

Chair Furfaro: Okay. You have a question on that question, Mr. Bynum?

Mr. Bynum: I know it is a Management statement and the way I read this and in future meetings they can comment, but the way I read this is that we do have a conservative approach. Based on things, like paying OPEB in advance and keeping pretty healthy fund balance, but I think the Council and the Administration has agreed that we are going to budget tighter and not have as large of variances. That is how I read this from Management and the agreement that that is a goal. I hope that is what they meant, because there were \$16 million in variances, right? So it is in my brain right now. We said, "Hey, we are going to spend this much," but we actually spent \$16 million less than we budgeted. That money did not go anywhere. It goes back into the General Fund, right?

Chair Furfaro: So that was the purpose of that question. That we would get to an understanding that the Administration would approach the next budget cycle with an understanding that we have ten (10) Departments that made up \$13 million of the \$16 that Mr. Bynum just referred to, so we have to have a very accurate approach to this, while we have dwindling revenues. Let us go to question No. 5 (five).

Mr. Isobe: Okay. "Please explain how you arrived at an unassigned Fund Balance as of June 30, 2012." The General Fund—the Reserve Fund sitting in the General Fund...what was committed from the Resolution was

put into the committed. All the rest, which did not meet the requirements to be either committed or restricted, is the remaining amount sitting in the unreserved—I am sorry, unassigned. There was no other designation that those funds could be put and whatever does not meet those requirements under GASB 64 fall into the unassigned Fund Balance.

Chair Furfaro: Okay. We will go to No. 6, the last of the questions that I sent over.

Mr. Isobe “Please explain the cut-off date of the CAFR of June 30, 2012 and whether any portion of these funds is used as of July 1<sup>st</sup> for Fiscal Year 2013. Page 85 of the CAFR references amounts categorized as balancing future budget shortfalls. Please explain this category.” I have spoken before about intent. Intent can be done after and it is the least constrained of Fund Balance constraints. The County’s intent to use those funds to balance the subsequent years’ budgetary shortfalls is an assignment of the Fund Balance. I think we quoted in our slide as to what that specific assignment is based on GASB 54.

Chair Furfaro: Questions on those questions, anyone?

Ms. Nakamura: So that is a Council—Is that the Council’s intent or the Administration’s intent?

Mr. Isobe: That is Council’s intent.

Ms. Nakamura: Thank you.

Chair Furfaro: Gentlemen, thank you very much for taking my six (6) questions. I am sure that the rest of the members did not have a problem with me intervening with my list, since I sent it in advance. We have another half an hour so are there any more questions for the Auditors? Go right ahead.

Ms. Nakamura: This is a simple question but there is a category here, as we talked about the different Departments that talk about culture and recreation. I was just wondering if that is different from Parks and Recreation. We do not have a Culture Department. This is on Page 33. It is just a labeling question.

WALLACE G. REZENTES, JR., Director of Finance: On Page 33, the reference in culture and recreation category, that is inclusive of the various Park functions and Divisions.

Ms. Nakamura: That pretty much summarizes everything relating to Parks and Recreation?

Mr. Rezentes: Yes. It is included in that like auditoriums, stadiums, beautification, and maintenance. It is all part of the Park’s function and Department.

Ms. Nakamura: Okay. I was just curious because every other one, I think the Departments are labeled accurately.

Chair Furfaro: I have a couple of questions on the Enterprise Funds. Members, do you mind if I go with a couple of questions? On the Enterprise Funds...and I am referencing Page 38 and 39. Let us go to 39 first. So for the Enterprise Funds like Sewer and Golf, these total transfers were \$4 million into those funds. \$1 million went to Golf. You touched on that earlier, but we had \$3 million that went to Sewer, but yet, when you go specifically to Sewer it looks like we might have transferred \$1.7 million more than necessary. Is this some requirement that requires us to transfer \$3.26 million to Sewer when they only needed like \$1.8 million to cover their Operating Expenses?

Mr. Isobe: I believe the transfers are based off what you budget to transfer out, so they will make those transfers based on what is budgeted.

Chair Furfaro: Yes, I have a problem with that because I think that is where we get ourselves in trouble sometimes. We do a budget, which is no more than a forecast. We end the year and we know what the forecasted actuals have been, but we go back to the original budget number to transfer. If this was a private business, the Sewer Department made \$1.7 million.

Mr. Bynum: We did that. For this year's budget, we did that. The Administration and the Council agreed to keep those Fund Balances lower and not rest those funds in there. That is why I said earlier, for this next CAFR we will not see those balances.

Chair Furfaro: I think you are catching my point. My point is that we are building a trend. We did some advice, but we are transferring more.

Mr. Bynum: Right.

Chair Furfaro: But in reality, we can tighten this up a bit, unless there is a specific accounting Administrative requirement to have an Opening Fund Balance that is substantially for some reason. I do not think there is. I am Chairman for two (2) years and I am now taking two (2) years of trends based on what we have been advised to do versus what we are doing. This says there was a transfer which maybe we should not have agreed to what was in the budget that Mr. Bynum just said. We should agree when we come to the end of the year to only transfer what we actually need. But we have to almost go a whole year for that kind of definition. That is one (1) of them for me, which is a bit revealing. Then I want to go back to Page 38, based on your Management Report, if I look at Page 38 on "Public Housing," the recording here of the way we recorded that \$1.9 million for construction—this is the page that it is showing up on. Am I correct? Will you look into this shortfall?

Mr. Isobe: It would have been sitting in "Construction in Progress."

Chair Furfaro: Yes, that is the term that they are using, right?

Mr. Isobe: Yes.

Chair Furfaro: This is where it actually shows in this total here. But it shows—I am trying to read, is that a negative or positive integer?

Mr. Isobe: \$219,000.00 in Construction in Progress at year-end. That is how much is in there at June 30<sup>th</sup>, with that \$1.9 already removed.

Chair Furfaro: With it already removed?

Mr. Isobe: Yes, already removed.

Chair Furfaro: Okay, I got it. Members? Mr. Bynum?

Mr. Bynum: I just want to clarify something. I am assuming that this is the (inaudible) that we are referring to about why we recorded and why there was a change.

Mr. Isobe: He provided us with GASB statement bringing greater clarity and consistency to Fund Balance Reporting. It is a summary of what appears to be GASB 54, what the Fund Balance Constraints that we were just discussing. There is a paragraph on rainy-day funds. Did you want me to read what he highlighted?

Mr. Bynum: When I got the first draft, that is when I pulled this up from reading it in the past and said, "Wait a minute." Then you restated. I am assuming it is because of the issue covered in that synopsis, yes? You could read the paragraph.

Mr. Isobe: However, stabilization is regarded as a specific purpose only if the circumstances or conditions that signal the need for stabilization: a) are identified in detail and; b) are not likely to occur routinely. Yes, that is what we were quoting as they related to the committed and restricted portions of the stabilization arrangement.

Mr. Bynum: Okay. I have passed this document out to members before, but I will do it again, because it really explains that we are required to report it that way. Then just the other general question is, "Under GASB, we now have General Funds divided into five (5) categories: Non-Spendable, Restricted, Committed, Assigned, and Unassigned, right? By definition, the first two (2) are restricted, right? The last three (3) are considered Unrestricted Fund Balances, correct?

Mr. Isobe: They are considered those five (5) categories: Non-Spendable, Restricted, Committed, Assigned, and Unassigned. I do not think they are blended.

Mr. Bynum: Okay.

Chair Furfaro: Do you mind if I bring Wally up for a minute on the earlier funds and the transfers that we talked about.

Mr. Rezentes: Yes, Chair, thank you. I heard your question and you saw me in the back.

Chair Furfaro: Basically, I do not understand what we budgeted for is what we absolutely had to transfer for. If you control the cost better, the reality is that you could make an Enterprise Fund look like it had a profit.

Mr. Rezentes: So that I am square with what you had said, I believe what you had said was when the General Fund in the Budget Ordinance Process, when the General Fund—we are earmarking General Fund dollars to Deficit Funds, like say, Solid Waste, and the Budget Ordinance basically approves X amount of dollars going from General Fund to these other Special Funds or Enterprise Funds. I believe your question was if the budget approved the transfer of \$5 million from General Fund to Solid Waste but at the end of the Fiscal Year, it was determined that the Solid Waste Fund only needed \$4 million, not \$5 million. You are correct. What happens is the Department of Finance is following the Budget Ordinance authority in transferring the entire amount of \$5 million over to Solid Waste in the example that I gave. One option and I went back to talk to Amy...and one (1) option we may want to consider and again, I would need to check if it is appropriate. From the legal side, maybe there is language that we could include in the Budget Ordinance Provisos that would say, we can transfer up to that amount, but only what is necessary, something along those lines.

Chair Furfaro: That is what I am saying.

Mr. Rezentes: And it will accomplish the goal...

Chair Furfaro: But you are telling me here, because the Ordinance, the Law at budget time said it is \$3 million. The reality is that there is nothing that says “or reconciled to the actual amount necessary.” We do not have that. This is what is happening to us and I am watching this, that we need a little better verbiage there.

Mr. Rezentes: I think as long as we have that understanding and we do on both sides, the Administration and Council, and we get the legal concurrence, maybe that is the way we can look at proceeding in the upcoming budget cycle.

Chair Furfaro: Okay. Vice Chair Nakamura had a question, and then Mr. Bynum. That was my whole point.

Mr. Rezentes: Okay.

Ms. Nakamura: So Wally, timing-wise, when is the transfer made?

Mr. Rezentes: Usually, technically the funds are available and it is transferred for the fiscal year.

Ms. Nakamura: For the fiscal year?

Mr. Rezentes: Yes. I think what the Chair is going at is on the back-end, when all of the expenses are accounted for, what is that true number? We should maybe—one way—one method to address the concern is only moving what is necessary to get that fund to a level playing field so there is no General Fund sitting in Solid Waste at the end of the fiscal year.

Ms. Nakamura: Thank you.

Chair Furfaro: There is an accounting term that says at the end of the period, you do a “true-up.” You true-up the numbers, right? It is an accounting term, but our Ordinance does not indicate that we can do that. Mr. Bynum.

Mr. Bynum: This is a discussion we had last—not last budget, but for this fiscal year. This year, when we did the budget, the Administration agreed and I want to acknowledge that, that we did not need to keep a big fund in those funds and that we should do a better estimate of our actual needs and that is what we did in this budget year, so I think what Wally is saying is a really interesting idea that I had not thought of. But we did—we, collectively, the Administration and the Council, did do a tighter estimate of what the actual transfer needs were made in the current budget year that we are in. And you guys will see that next year.

Chair Furfaro: We still have another sixteen (16) minutes of your time. Members, if you have questions? Councilmember Yukimura.

Ms. Yukimura: You have a page where you show the tightness of budgeting so the variances per Department or per line item, which you had last time which was very instructive. I think we have gotten better. Do you know where that is?

Mr. Isobe: Pages 32 to 34.

Mr. Bynum: Pages 31 to 33.

Mr. Isobe: Yes, on Pages 31 to 34 for the General Fund. Those are your original budget and final budget and your actual and your variance with that.

Ms. Yukimura: It is showing a total variance of \$9.8 million. Is that correct?

Mr. Isobe: The General Government.

Ms. Yukimura: Okay.

Mr. Isobe: If you go to the next page you also have “Public Safety, Public works, Culture and Recreation, and Public Welfare.” The total variance for the whole General Fund is \$16 million, on Page 34.

Ms. Yukimura: Thank you. Okay, which means that collectively our Departments over budgeted by \$16 million, although in some cases it was justified?

Mr. Isobe: Yes.

Ms. Yukimura: So is that a common phenomenon in other places that you have budgeted?

Mr. Isobe: I think you asked us that last year.

Chair Furfaro: We did and I think the response was something that indicated that in a year for a year, the Administration does not have a way to move revenue by in the middle of the year to raise taxes or something like that. Not like a hotel, where you would increase the room rate, so I think you said to us a margin would be something like 15%. Once you exceed 15%, then you need to take

a tighter look at the budget. If I recall, that is somewhat of what I remember. As I mentioned earlier before we got here, it seems to me that we had this budget error in about 80% of that amount was really realized by ten (10) specific Departments. For example, the Council, we ended the year 12.5% better than budget. If the rule is not to be more than 15%, we fell within the rule. It is very difficult to be right on the numbers, but would you still agree with what we were talking about last year? You have a problem if you are more than 15% over? You have to have you tighten up your budgeting? Is there a guideline?

Mr. Shiigi: I think that is a general guideline, if you want to stay within that.

Ms. Yukimura: What are we at with \$16 million?

Chair Furfaro: No, what I am saying, JoAnn, is that we had ten (10) Departments that were greater than 15% variance. So you follow me?

Ms. Yukimura: Yes.

Chair Furfaro: We had ten (10) Departments that budgeted 15% more than what they should have, if you are following that guideline.

Ms. Yukimura: Well, I know there was—the Police Department was a special situation, but we are denying certain programs and initiatives, money if we tie it up in regular budgeting...so to the extent that we over budget, that means we are taking it away from some special initiatives that may, in the long run, bring in more tax revenue, or cut costs, or acquire shoreline property that will prepare us for a larger population. All of those kinds of things. I am just trying to understand the implications for our guideline. Tim says we are at 17%. That is not too bad.

Mr. Bynum: Roughly.

Ms. Yukimura: That is not too bad.

Chair Furfaro: That is exactly what we need to talk about at budget time.

Mr. Bynum: Exactly.

Chair Furfaro: Not now, and the reality is this, if you do not talk about it honestly and openly, you might have Departments that say, "I was under budget so I will spend more." You need to manage that and that is the political will how you want to handle that. The trend that the Auditors just told us from 2009 to 2012, we are bringing in less revenue, but in the same period, what they told us, even though we are under budget, we are spending a trend more and that is the discussion we have to have at budget time.

Ms. Yukimura: I agree. The thing is not just to look at expenditures, but to look at what the goals of each Department is, and what kind of budget they are using to achieve those goals so at the end of the year, what they have achieved...I think that is the key and if we have to cut, that is also how we cut, based on what our goals and our priorities are.



Mr. Rapozo: I think—first of all, I want to thank you both. Thank you very much for being here. I know a lot of times people will get the perception that the Auditors are going to print what will benefit the people that pay them and it is obvious that you folks looked at the financials and made some very objective notes and comments. I appreciate your work. I just wanted to make that on the record. When we have declining revenues, and increasing expenditures, and we end up with extra money, that is a serious problem with what I would call the over budgeting because really, if you have rising costs and decreasing revenues, you really should be in the red. If that happens at home, I end up—I cannot write a check, but this County, for some reason, and Tim calls it “conservative budgeting” but I call it differently. We are not budgeting the way we should be budgeting. We have to be tighter. This body has to be more accountable and hold more accountability and I understand this discussion will be for the budget session, but we have funded positions that do not get filled. We funded positions that we felt were priorities in the Administration and they just do not fill it. You know, a position is \$50,000.00 plus benefits, another \$25,000.00, \$75,000.00 and you do that to or three (3) more times we are up to \$1 million in unexpended salaries because the Administration chooses not to hire. That is a trend this Council needs to stop. If we want to make sure these numbers are in check, we have to hold the Administration accountable and I am hoping the direction this Council will take as we move into the budget session. Thank you for again. I appreciate the information and the data. I do not know if we will have that back again at some point, Mr. Chair?

Chair Furfaro: It is possible.

Mr. Rapozo: Okay.

Chair Furfaro: Thank you. Ross, go ahead.

Mr. Kagawa: Thank you guys also. I have learned a lot today and the most important job of the Council which is to understand the budget. Mahalo. I just have one question that is probably real simple. You know in our equipment, capital assets, do we just look at the audit from the paper side? Or do we actually do some tests in there with our equipment?

Mr. Isobe: On the equipment additions and what you are buying?

Mr. Kagawa: Yes, because I know with large entities, that is sometimes where some misstatements are made because you have equipment that maybe is physically at the base yard, but it is broken or whatever. Do we do just look at what is pretty much on paper or do we do some testing there to see if they are accurate?

Mr. Isobe: We looked at what is on paper. I think in the prior year, there were some additions that we had to go look at, the big stuff.

Mr. Kagawa: Do you recommend maybe changing the scope because I would feel more comfortable if we did a little bit of work in that area. I think if we can increase the scope, I would be more than happy to improve an increase in that area because I want to make sure whatever we have—I know as an accountant in the past, the balance sheet is really the important part of when you look at how strong an entity is.

Chair Furfaro: Okay. Gentlemen, I want to let you know that we are coming up on our time and your flight. Here is kind of where I think we are at. First of all, if I came across a very too straightforward, too rigid at the beginning of the meeting it was so that we could get through the timely parts of the single audit report, as well as the recommendations piece and then talk about the highlights in the financial at the end here. So to you folks, if I seemed too rigid, to the members here, I also want to extend my apologies, but leadership is not an easy task every day.

Secondly, I want to encourage the Members and I want to thank you for Pages 130 through 136. There is some great trend information there. I think Mr. Rapozo made reference to it at least when we talked about where we are going with expenses and where we are going with revenues. But I would like to see if we could not really digest that while we have the books in hand here. Then for the Finance Committee Chair, we need to set up a calendar that deals with the nine (9) single audit recommendations, as well as the particular management advisory pieces and have a better understanding of how those will be addressed by the Administration. Now I have to do something that I did—I thought I did at the beginning was to take public comments, but nobody was here. Now I have to ask the question again for public comment. If there is anyone here before we close today's meeting, that would like to ask any questions? No? Okay. So the task is assigned to you, Mr. Bynum. If there is someone that needs to call the Auditors, I want to remember we are on a meter here so please clear it with me, so we have an understanding that if we get a little bit more in the way of costs, we can at least manage those. Gentlemen, it has really been a pleasure working with your organization for the last two (2) years. I think as you become more and more familiar with us, we can achieve some of these things that have been pointed out. I know I am feeling very comfortable with your firm and this is only the second year of our relationship. So thank you very much.

Mr. Isobe: Thank you.

Chair Furfaro: Any other parting comments for the auditors?

Mr. Rapozo: No, I do not. I have a question for the Committee Chair but it can wait until after we dismiss the Auditors.

Chair Furfaro: Thank you, gentlemen. We have a way for you to get back to the airport?

Mr. Isobe: We are fine. Thank you.

Chair Furfaro: Thank you very much. I will call the meeting back to order, discussion, Members?

There being no objections, the meeting was called back to order, and proceeded as follows:

Mr. Rapozo: Mr. Chair, thank you. I guess just for the Committee Chair as far as the timeline and schedule, are we looking at a Special Committee Meeting or are we looking at a day-long session as far as how you are going to set up the reviews?

Mr. Bynum: The last time, we did it in a series of meetings so we can focus specifically and because it involves different Departments. I am going to be working with Jade and Scott to schedule those and the Administration.

Mr. Rapozo: I am looking at when are you looking at starting those sessions? I think we should probably get started sooner than later.

Mr. Bynum: Probably mid-January?

Chair Furfaro: When is the first Committee Meeting in January?

Ms. Yukimura: The 9<sup>th</sup>.

Chair Furfaro: And the next Committee after that?

Mr. Topenio: The 23<sup>rd</sup>.

Mr. Bynum: So probably no later than the 23<sup>rd</sup>.

Mr. Rapozo: So it is going to be done at our normal Committee Meeting?

Mr. Bynum: It probably will not be all-in-one day. There are more findings and some are more serious.

Mr. Rapozo: That is my point. I think it is serious enough that I think we should deal with the serious ones first and do it as soon as possible.

Mr. Bynum: Seriousness in terms of their rating with material deficiencies first and...

Mr. Rapozo: Material weaknesses.

Mr. Bynum: Some of the Councilmembers expressed concerns about Management, which is the least serious level in their criteria, but it is important to us. I would be more than willing to have input about what order we should do these in. I think some of them there could be several on one (1) day, because they are not going to take that much time, whereas the bigger ones will probably have more questions and answers.

Mr. Rapozo: I would suggest that we do a session like we did today, a Special Committee Meeting because you know how things happen. January you may end up with a Committee Agenda.

Mr. Bynum: The Real Property and Finance issues...this budget is going to be with the changing things in Real Property, with some of the stressors that they have on that side. This is going to be a very intense year between now and budget in May and June.

Mr. Rapozo: I believe that we need to resolve a lot of these issues, in fact, all of these issues before we start the budget process.

Mr. Bynum: I am hearing your preference would be not to do it on regular Committee days, but set up a half-day.

Mr. Rapozo: Or a full day. I think we could probably get through all the items on a full day.

Chair Furfaro: May I interrupt. On the 4<sup>th</sup> we have a Special Council Meeting in the morning which is on the Wailua Beach. The afternoon is open. I just threw that out to the Committee Members. I will throw out that we are open to posting a whole day, if it turns out that way, but for me, if I can add something, I would like us to address the shortcomings that deal with the Federal Grants. That to me is where my priority will be. If you are entertaining feedback.

Mr. Rapozo: I will leave it up to the Chair. The Chair can determine the sequence, but my point is a lot of these issues involve matters that affect the budget. I just want to make sure we get some commitments from the Administration prior to going into the budget session.

Chair Furfaro: That would be his call and again, you asked for comments. Those are mine, so however you want to do it, we will be real flexible.

Mr. Bynum: I rely on Jade and Ricky because of their experience with the timing and to talk to the Administration about where they are, because we want to get a substantive response and they may need some time to develop that. They may have preferences to take this one first or give us a little more time on this one. So I will coordinate that with our staff.

Ms. Nakamura: I just wanted to just take the time to thank the Auditor's Office, the Finance Department, and especially the Accounting Division because it is a monumental task to get this document out and done on time. This has been a very good discussion and I think will help us point to how to improve the Management of County Government. Thank you very much.

Mr. Bynum: Just a couple of closing comments. This is really the beginning of what I believe will be a pretty intense year in terms of Finance and budget issues. The Auditors have pointed out this several-year trend of decreasing revenue and then the last couple of years, increasing expenditures. The reason we are able to do that is because we also five (5) or six (6) years ago had a very significant General Fund Balance that we have been the last two (2) years drawing down on, so we have to address those trends. That is why three (3) years ago I was suggesting rate increases, not to increase taxes, but to keep us from losing as much revenue. I said repeatedly that more than \$30 million of reduced revenue from non-residents offset by \$2.5 million of increases to residents. Our residents have not enjoyed those decreases in property taxes that are reflected in our revenue loss. That has gone to non-resident taxpayers. So it is not just that trend and we have to stabilize revenues, at least, maybe even bring them up some to meet the needs of the County. But we also have to look very closely at who pays what portion of that burden in terms of tax fairness and equity. Those are big challenges for this Council coming up. I just wanted to make those comments.

Chair Furfaro: Okay. On that note, I want to let you know, those trends are in the book by the nine (9) tax categories, so you can take a look at it. I want to remind everybody tomorrow is our regular Council Meeting. We have an interview and presentation at 8:30 tomorrow. So our session starts at 8:30. I am also departing on my babysitting duties at 3:00 tomorrow. I just wanted to point it

out that I would like to start early. On that note, I want to thank—Ross, go right ahead.

Upon motion duly made by Mr. Kagawa, seconded by Mr. Rapozo, and unanimously carried, C 2013-02 was received for the record.

ADJOURNMENT:

There being no further business, the meeting was adjourned at 12:34 p.m.

Respectfully submitted,



RICKY WATANABE  
County Clerk

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